

Cathay Life Insurance Co., Ltd.
Financial Statements
Together with
Report of independent auditors
As of June 30, 2005 and 2006

The reader is advised that these financial statements have been prepared originally in Chinese. These financial statements do not include additional disclosure information that is required for Chinese-language reports under the “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and “Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries.” If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language financial statements shall prevail.

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English Translation of Report Originally Issued in Chinese

Independent Auditors' Report

To: Board of Directors
Cathay Life Insurance Co., Ltd.

We have audited the accompanying balance sheets of Cathay Life Insurance Co., Ltd. as of June 30, 2005 and 2006, and the related statements of income, changes in stockholders' equity, and cash flows for the six months periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the Republic of China, and "Guidelines for Certified Public Accountants' Examination and Reporting on Financial Statements". Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cathay Life Insurance Co., Ltd. as of June 30, 2005 and 2006, and the results of its operations and their cash flows for the six months periods then ended in conformity with "Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries.", "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in the Republic of China.

As discussed in Note 3 to the financial statements, effective from January 1, 2006, the Company adopted the R.O.C. Statement of Financial Accounting Standards No. 34, "Accounting for Financial Instruments," and No. 36, "Disclosure and Presentation of Financial Instruments".

In addition, we have also reviewed the consolidated financial statements of the Company as of and for the six months ended June 30, 2006 and expressed a modified unqualified review report.

Ernst & Young
Taipei, Taiwan
The Republic of China
July 31, 2006

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Balance sheets

As of June 30, 2005 and 2006

(Expressed in thousands of dollars)

Assets	Notes	June 30, 2005		June 30, 2006	
		NT\$	US\$	NT\$	US\$
Current assets					
Cash and cash equivalents	2,4	\$252,407,249	\$7,977,473	\$274,073,943	\$8,477,388
Financial assets at fair value through profit and loss-current	2,5	119,905,848	3,789,692	122,176,902	3,779,057
Available-for-sale financial assets - current	2,6	106,795,415	3,375,329	82,499,190	2,551,784
Held-to-maturity financial assets - current		98,702	3,120	4,494,949	139,033
Derivative financial assets for hedging - current	2,7	-	-	326,925	10,112
Investments in debt securities with no active market-current		210,538	6,654	2,669,773	82,579
Notes receivable		10,278,092	324,845	9,380,157	290,138
Reinsurance accounts receivable		103,688	3,277	109,082	3,374
Other accounts receivable		13,152,237	415,684	25,196,923	779,367
Other financial assets-current		5,000,000	158,028	16,350,000	505,722
Prepayments		62,871	1,987	18,087	559
Deferred income tax assets - current		-	-	4,030,351	124,663
Other current assets		6,585,783	208,147	4,866,991	150,541
Subtotal		<u>514,600,423</u>	<u>16,264,236</u>	<u>546,193,273</u>	<u>16,894,317</u>
Loans					
Policy loans	2,8	166,262,058	5,254,806	171,013,101	5,289,610
Secured loans		278,958,307	8,816,634	283,508,264	8,769,201
Subtotal		<u>445,220,365</u>	<u>14,071,440</u>	<u>454,521,365</u>	<u>14,058,811</u>
Funds and investments					
Available-for-sale financial assets - noncurrent	2,9	125,917,050	3,979,679	138,531,073	4,284,908
Held-to-maturity financial assets - noncurrent	2,10	372,872,790	11,784,854	524,773,006	16,231,767
Financial assets carried at cost - noncurrent	2,11	21,333,510	674,258	20,159,255	623,546
Investments in debt securities with no active market - noncurrent		41,777,254	1,320,394	43,008,176	1,330,287
Long-term investments in stocks under the equity method	2,13	3,699,081	116,911	4,181,686	129,344
Investments in real estate	2,14	101,441,734	3,206,123	104,937,050	3,245,810
Subtotal		<u>667,041,419</u>	<u>21,082,219</u>	<u>835,590,246</u>	<u>25,845,662</u>
Property and equipment					
Land	2,15	5,098,236	161,133	4,791,136	148,195
Buildings and construction		10,874,798	343,704	10,035,621	310,412
Computer equipment		1,426,441	45,084	1,564,356	48,387
Communication and transportation equipment		75,254	2,378	35,510	1,098
Other equipment		3,164,792	100,025	3,272,224	101,213
Revaluation increments		2,212	70	1,472	46
Less: Accumulated depreciation		(6,019,295)	(190,243)	(6,357,323)	(196,639)
Less: Accumulated impairment		(85,519)	(2,703)	(85,519)	(2,645)
Construction in progress and prepayment for equipment		17,412	550	13,751	426
Subtotal		<u>14,554,331</u>	<u>459,998</u>	<u>13,271,228</u>	<u>410,493</u>
Intangible assets					
Computer software cost		148,929	4,707	309,512	9,574
Subtotal		<u>148,929</u>	<u>4,707</u>	<u>309,512</u>	<u>9,574</u>
Other assets					
Guarantee deposits paid		8,336,424	263,478	8,298,933	256,694
Deferred income tax assets- non current	2,22	430,815	13,616	453,543	14,029
Other overdue receivables	2,16	839,600	26,536	34,786	1,075
Separate account products assets		54,677,960	1,728,128	120,318,957	3,721,589
Other assets-other		999,359	31,585	2,523,644	78,059
Subtotal		<u>65,284,158</u>	<u>2,063,343</u>	<u>131,629,863</u>	<u>4,071,446</u>
Total assets		<u>\$1,706,849,625</u>	<u>\$53,945,943</u>	<u>\$1,981,515,487</u>	<u>\$61,290,303</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2005 and 2006 were NT\$31.64 and NT\$32.33 to US\$1.00)

The accompanying notes are an integral part of these financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Balance sheets - (continued)

As of June 30, 2005 and 2006

(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	June 30, 2005		June 30, 2006	
		NT\$	US\$	NT\$	US\$
Current liabilities					
Financial liabilities at fair value through profit and loss - current	2,17	\$1,768,497	\$55,894	\$17,205,497	\$532,183
Derivative financial liabilities for hedging - current	2,18	-	-	22,695	702
Notes payable		2,146	68	15,680	485
Commissions payable		759,869	24,016	1,156,898	35,784
Life insurance proceeds payable		2,999	95	3,187	99
Reinsurance accounts payable		73,372	2,319	134,926	4,173
Other payable		3,458,084	109,295	13,110,515	405,522
Accounts collected in advance		154,989	4,899	133,033	4,115
Deferred income tax liabilities - current	2,22	220,416	6,966	-	-
Subtotal		<u>6,440,372</u>	<u>203,552</u>	<u>31,782,431</u>	<u>983,063</u>
Long-term liabilities					
Reserve for land revaluation increment tax		3,726	118	3,581	111
Accrued pension liability		1,564,460	49,445	1,657,161	51,258
Subtotal		<u>1,568,186</u>	<u>49,563</u>	<u>1,660,742</u>	<u>51,369</u>
Reserve for operations and liabilities					
Unearned premium reserve		9,506,482	300,458	10,368,366	320,704
Reserve for life insurance liabilities		1,530,486,964	48,371,901	1,693,362,974	52,377,451
Special reserve		16,755,665	529,572	17,296,479	534,998
Loss and loss expense provisions		350,496	11,078	1,268,868	39,247
Subtotal		<u>1,557,099,607</u>	<u>49,213,009</u>	<u>1,722,296,687</u>	<u>53,272,400</u>
Other miscellaneous liabilities					
Guarantee deposits received		1,634,584	51,662	1,562,848	48,340
Separate account products liabilities		54,677,960	1,728,127	120,318,957	3,721,589
Other miscellaneous liabilities		1,715,544	54,221	6,173,392	190,949
Subtotal		<u>58,028,088</u>	<u>1,834,010</u>	<u>128,055,197</u>	<u>3,960,878</u>
Total liabilities		<u>1,623,136,253</u>	<u>51,300,134</u>	<u>1,883,795,057</u>	<u>58,267,710</u>
Stockholders' equity					
Capital stock					
Common stock	2,19	50,686,158	1,601,965	50,686,158	1,567,775
Capital surplus		10,105	320	10,105	313
Retained earnings					
Legal reserve	2,20	17,891,897	565,483	19,684,163	608,851
Special reserve		11,082,320	350,263	14,133,703	437,170
Unappropriated retained earnings		4,150,109	131,167	7,179,279	222,062
Equity adjustment					
Unrealized (losses) gains on financial instruments		(3,176)	(100)	6,035,801	186,694
Unrealized revaluation increments		3,048	96	2,105	65
Cumulative conversion adjustments		(107,089)	(3,385)	(10,884)	(337)
Total stockholders' equity		<u>83,713,372</u>	<u>2,645,809</u>	<u>97,720,430</u>	<u>3,022,593</u>
Total liabilities and stockholders' equity		<u>\$1,706,849,625</u>	<u>\$53,945,943</u>	<u>\$1,981,515,487</u>	<u>\$61,290,303</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2005 and 2006 were NT\$31.64 and NT\$32.33 to US\$1.00)

The accompanying notes are an integral part of these financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Statements of income

For the six months ended June 30, 2005 and 2006

(Expressed in thousands of dollars, except earnings per share)

Item	Notes	January 1-June 30,2005		January 1-June 30,2006	
		NTS	US\$	NTS	US\$
Operating revenues	2				
Premiums income		\$126,610,856	\$4,001,607	\$127,368,772	\$3,939,647
Reinsurance commission earned		177,767	5,618	190,590	5,895
Claims recovered from reinsures		67,721	2,140	104,231	3,224
Recovered premiums reserve		50,701,949	1,602,464	54,151,442	1,674,960
Recovered special reserve		400,481	12,658	474,262	14,669
Handling fees earned		608,344	19,227	481,361	14,889
Interest income		26,177,746	827,362	30,400,332	940,313
Gain from valuation on financial assets		-	-	5,507,537	170,354
Gains on long-term equity investments		37,214	1,176	190,556	5,894
Gains on disposal of investments		4,575,933	144,625	15,528,172	480,302
Gains on investments-real estate		2,732,416	86,360	5,436,402	168,153
Separate account products revenues	2	23,007,420	727,163	36,681,060	1,134,583
Subtotal		235,097,847	7,430,400	276,514,717	8,552,883
Operating costs	2				
Reinsurance premiums ceded		(279,024)	(8,819)	(295,304)	(9,134)
Brokerage expenses		(11,463,876)	(362,322)	(13,012,415)	(402,487)
Commissions expenses		(246,211)	(7,781)	(117,665)	(3,639)
Insurance claims payment		(65,843,334)	(2,081,016)	(69,853,125)	(2,160,629)
Provision for premiums reserve		(124,506,525)	(3,935,099)	(125,372,595)	(3,877,903)
Provision for special reserve		(424,028)	(13,402)	(326,455)	(10,098)
Contribution to the stabilization funds		(126,522)	(3,999)	(127,253)	(3,936)
Provision for claims reserve		(2,462)	(78)	(835,232)	(25,835)
Handling fees paid		(312,252)	(9,869)	(545,125)	(16,861)
Interest expenses		(23,703)	(749)	(86,711)	(2,682)
Losses from valuation on financial liabilities	2	-	-	(17,147,105)	(530,377)
Losses on foreign exchange		(895,024)	(28,288)	(5,265,274)	(162,860)
Separate account products expenses	2	(23,007,420)	(727,162)	(36,681,060)	(1,134,583)
Other operating cost		(15,924)	(503)	(40,352)	(1,248)
Subtotal		(227,146,305)	(7,179,087)	(269,705,671)	(8,342,272)
Operating gross profit		7,951,542	251,313	6,809,046	210,611
Operating expenses	2				
Marketing expenses		(1,067,477)	(33,738)	(1,508,087)	(46,647)
Administrative and general expenses		(4,100,083)	(129,586)	(3,990,487)	(123,430)
Subtotal		(5,167,560)	(163,324)	(5,498,574)	(170,077)
Operating income		2,783,982	87,989	1,310,472	40,534
Non-operating revenues & gains					
Gains on disposal of property and equipment		7,402	234	2,266	70
Other Non-operating revenues & gains		763,347	24,126	628,379	19,436
Subtotal		770,749	24,360	630,645	19,506
Non-operating expenses & losses					
Losses on disposal of property and equipment		(1,210)	(38)	(410)	(13)
Impairment loss		(285,118)	(9,011)	-	-
Miscellaneous expenses		(3,957)	(125)	(13,134)	(406)
Subtotal		(290,285)	(9,174)	(13,544)	(419)
Income from continuing operations before income taxes		3,264,446	103,175	1,927,573	59,621
Income taxes benefit	2,22	885,663	27,992	1,935,851	59,878
Income from continuing operations after income taxes		4,150,109	131,167	3,863,424	119,499
Cumulative effect of changes in accounting principles	3	-	-	3,315,855	102,563
Net income		\$4,150,109	\$131,167	\$7,179,279	\$222,062
Earnings per share (In dollars)	2,23				
Net income from continuing operations		\$0.82	\$0.03	\$0.76	\$0.02
Cumulative effect of changes in accounting principles		-	-	0.66	0.02
Net income		\$0.82	\$0.03	\$1.42	\$0.04

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2005 and 2006 were NT\$31.64 and NT\$32.33 to US\$1.00)

The accompanying notes are an integral part of these financial statements.

Cathay Life Insurance Co., Ltd.
Statements of changes in stockholders' equity
For the six months ended June 30, 2005 and 2006
(Expressed in thousands of dollars)

Summary	Retained earnings										Other stockholders' equity							
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized gain or loss of financial assets		Unrealized revaluation increments		Cumulative conversion adjustments		Total	
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$
Balance on January 1, 2005	\$50,686,158	\$1,601,965	\$9,543	\$302	\$16,330,948	\$516,149	\$8,016,080	\$253,353	\$15,609,488	\$493,346	\$-	\$-	\$3,048	\$96	\$(83,445)	\$(2,637)	\$90,571,820	\$2,862,574
Appropriations and Distributions for 2004																		
Legal reserve	-	-	-	-	1,560,949	49,334	-	-	(1,560,949)	(49,334)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	3,066,240	96,910	(3,066,240)	(96,910)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(10,906,612)	(344,710)	-	-	-	-	-	-	(10,906,612)	(344,710)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(256)	-	-	-	-	-	-	(8,100)	(256)
Bonus paid to employees	-	-	-	-	-	-	-	-	(67,587)	(2,136)	-	-	-	-	-	-	(67,587)	(2,136)
Capital surplus-long-term equity investment	-	-	562	18	-	-	-	-	-	-	-	-	-	-	-	-	562	18
Unrealized valuation losses on long-term equity investment	-	-	-	-	-	-	-	-	-	-	(3,176)	(100)	-	-	-	-	(3,176)	(100)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(23,644)	(748)	(23,644)	(748)
Net income after tax for the six months ended June 30, 2005	-	-	-	-	-	-	-	-	4,150,109	131,167	-	-	-	-	-	-	4,150,109	131,167
Balance on June 30, 2005	\$50,686,158	\$1,601,965	\$10,105	\$320	\$17,891,897	\$565,483	\$11,082,320	\$350,263	\$4,150,109	\$131,167	\$(3,176)	\$(100)	\$3,048	\$96	\$(107,089)	\$(3,385)	\$83,713,372	\$2,645,809
Balance on January 1, 2006	\$50,686,158	\$1,567,775	\$10,105	\$313	\$17,891,897	\$553,414	\$11,082,320	\$342,788	\$17,922,656	\$554,366	\$-	\$-	\$3,048	\$94	\$(4,119)	\$(128)	\$97,592,065	\$3,018,622
Appropriations and Distributions for 2005																		
Legal reserve	-	-	-	-	1,792,266	55,437	-	-	(1,792,266)	(55,437)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	3,051,383	94,382	(3,051,383)	(94,382)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(13,057,689)	(403,888)	-	-	-	-	-	-	(13,057,689)	(403,888)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(250)	-	-	-	-	-	-	(8,100)	(250)
Bonus paid to employees	-	-	-	-	-	-	-	-	(13,218)	(409)	-	-	-	-	-	-	(13,218)	(409)
Land revaluation increments	-	-	-	-	-	-	-	-	-	-	-	-	(943)	(29)	-	-	(943)	(29)
Unrealized gains or losses on financial instruments	-	-	-	-	-	-	-	-	-	-	6,035,801	186,694	-	-	-	-	6,035,801	186,694
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,765)	(209)	(6,765)	(209)
Net income after tax for the six months ended June 30, 2006	-	-	-	-	-	-	-	-	7,179,279	222,062	-	-	-	-	-	-	7,179,279	222,062
Balance on June 30, 2006	\$50,686,158	\$1,567,775	\$10,105	\$313	\$19,684,163	\$608,851	\$14,133,703	\$437,170	\$7,179,279	\$222,062	\$6,035,801	\$186,694	\$2,105	\$65	\$(10,884)	\$(337)	\$97,720,430	\$3,022,593

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2005 and 2006 were NTS31.64 and NTS32.33 to US\$1.00)

The accompanying notes are an integral part of these financial statements.

Cathay Life Insurance Co., Ltd.
Statements of cash flows
For the six months ended June 30, 2005 and 2006
(Expressed in thousands of dollars)

	January 1-June 30, 2005		January 1-June 30, 2006	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Net income for the periods	\$4,150,109	\$131,167	\$7,179,279	\$222,062
Adjustments:				
Recovered bad debt	(172,516)	(5,452)	(3,762)	(116)
Depreciation	1,102,045	34,831	1,158,589	35,836
Amortization	14,743	466	41,861	1,295
Impairment loss	285,118	9,011	-	-
Provision or recovered for each reserve	73,830,584	2,333,457	71,908,578	2,224,206
Gain on disposal of long-term investments in stock	-	-	(3,707)	(115)
Gain on disposal of property and equipment	(6,191)	(196)	(1,856)	(57)
Loss (gain) on disposal of real estate	10,664	337	(1,004,697)	(31,076)
Unrealized gain on long-term investments	8,393	265	(67,971)	(2,102)
Effects of exchange rate changes	1,109	35	(4,207)	(130)
Cumulative effect of changes in accounting principles	-	-	(3,315,855)	(102,563)
Increase in financial assets at fair value through profit and loss - current	25,156,772	795,094	667,843	20,657
(Increase) decrease in available-for-sale financial assets - current	(32,180,058)	(1,017,069)	42,160,091	1,304,055
Decrease in held-to-maturity financial assets - current	5,711,521	180,516	490,990	15,187
Decrease in derivative financial assets for hedging - current	-	-	107,068	3,312
Investments in debt securities with no active market-current	(210,538)	(6,654)	(2,669,773)	(82,579)
Decrease in notes receivable	2,082,568	65,821	4,634,475	143,349
Increase in reinsurance accounts receivable	(103,689)	(3,277)	(109,081)	(3,374)
Decrease (increase) in other accounts receivable	1,262,015	39,887	(8,211,602)	(253,993)
Increase in other financial assets-current	(5,000,000)	(158,028)	(10,350,000)	(320,136)
Decrease (Increase) in prepayments	(43,398)	(1,372)	27,514	851
Increase in deferred income tax assets - current	-	-	(4,030,351)	(124,663)
Increase in other current assets	(1,657,975)	(52,401)	(1,379,499)	(42,669)
Decrease (Increase) in deferred income tax assets- non current	(73,887)	(2,335)	6,576	203
Decrease (increase) in other assets-other	104,915	3,316	(1,072,451)	(33,172)
Increase in financial liabilities at fair value through profit and loss - current	1,610,534	50,902	13,068,936	404,236
Increase in derivative financial liabilities for hedging - current	-	-	22,695	702
Increase in notes payable	197	6	14,029	434
Increase (decrease) in commissions payable	(333,355)	(10,536)	(230,642)	(7,134)
Decrease in life insurance proceeds payable	958	30	(823)	(26)
Decrease in reinsurance accounts payable	(96,459)	(3,049)	(56,863)	(1,759)
(Decrease) increase in other payable	(2,723,155)	(86,067)	7,669,905	237,238
Decrease in deferred income tax liabilities - current	(222,385)	(7,029)	(396,408)	(12,261)
Increase (decrease) in accounts collected in advance	12,329	390	(349,953)	(10,824)
Decrease in reserve for land revaluation increment tax	-	-	(145)	(5)
Increase in accrued pension liability	136,750	4,322	29,843	923
Decrease in other miscellaneous liabilities	(494,914)	(15,642)	(5,149,479)	(159,279)
Net cash provided in operating activities	72,162,804	2,280,746	110,779,147	3,426,513
Cash flows from investing activities				
Decrease (increase) in policy loans	3,068,010	96,966	(4,518,911)	(139,775)
Decrease (increase) in secured loans	3,456,848	109,256	(6,851,064)	(211,910)
Acquisition of long-term investments	(155,000)	(4,899)	-	-
Proceeds from disposal of long-term investments	24,061	761	-	-
Decrease (increase) in available-for-sale financial assets - noncurrent	15,507,715	490,130	(28,439,897)	(879,675)
Increase in held-to-maturity financial assets - noncurrent	(51,555,410)	(1,629,438)	(70,608,263)	(2,183,986)
(Increase) decrease in financial assets carried at cost - noncurrent	(10,290,333)	(325,232)	291,592	9,019
(Increase) decrease in investments in debt securities with no active market - noncurrent	(5,181,024)	(163,749)	2,598,385	80,371
Proceeds from sale of disposal long-term investments in stocks	-	-	47,411	1,466
Disposal of investments in real estate	29,450	931	1,681,819	52,020
Acquisition of investments in real estate	(897,150)	(28,355)	(4,386,853)	(135,690)
Disposal of property and equipment	103,503	3,271	8,651	268
Acquisition of property and equipment	(317,817)	(10,045)	(129,461)	(4,004)
Acquisition of intangible assets	(94,751)	(2,995)	(173,166)	(5,356)
(Increase) in guarantee deposits paid	(7,438)	(235)	(76,323)	(2,361)
Decrease (increase) in other overdue receivables	389,856	12,322	(5,923)	(183)
Net cash used in investing activities	(45,919,480)	(1,451,311)	(110,562,003)	(3,419,796)

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2005 and 2006 were NT\$31.64 and NT\$32.33 to US\$1.00)

The accompanying notes are an integral part of these financial statements.

Cathay life insurance Co., Ltd.
Statements of cash flows-(continued)
(Expressed in thousands of dollars)
(Expressed in thousands of dollars)

	January 1-June 30, 2005		January 1-June 30, 2006	
	NT\$	US\$	NT\$	US\$
Cash flows from financing activities				
Decrease in guarantee deposits received	(12,847)	(406)	(80,836)	(2,500)
Remuneration paid to directors and supervisors	(8,100)	(256)	(8,100)	(250)
Bonus paid to employees	(67,587)	(2,136)	(13,218)	(409)
Cash dividends	(10,906,612)	(344,710)	(13,057,689)	(403,888)
Net cash used in financing activities	(10,995,146)	(347,508)	(13,159,843)	(407,047)
Effects of exchange rate changes	(1,109)	(35)	4,207	130
Increase (decrease) in cash and cash equivalents	15,247,069	481,892	(12,938,492)	(400,200)
Cash and cash equivalents at the beginning of year	237,160,180	7,495,581	287,012,435	8,877,588
Cash and cash equivalents at the end of year	\$252,407,249	\$7,977,473	\$274,073,943	\$8,477,388
Supplemental disclosure of cash flows information				
Interest paid during the year	\$12,678	\$401	\$71,831	\$2,222
Interest paid (excluding capitalized interest)	\$12,678	\$401	\$71,831	\$2,222
Income tax paid	\$488,270	\$15,432	\$610,411	\$18,881

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2005 and 2006 were NT\$31.64 and NT\$32.33 to US\$1.00)

The accompanying notes are an integral part of these financial statements.

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Notes to financial statements

(Expressed in thousands of dollars except for share
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As of June 30, 2005 and 2006

1. Organizations and business scope

Cathay Life Insurance Co., Ltd. (the “Company”) was incorporated in Taiwan on October 23, 1962, under the provisions of the Company Law (the “Company Law”) of the Republic of China (“ROC”). The Company mainly engages in the business of life insurance. On December 31, 2001, the Company became a subsidiary of Cathay Financial Holding Co., Ltd. (“Cathay Financial Holding”) by adopting the stock conversion method under the ROC Financial Holding Company Act (“Financial Holding Company Act”) and other pertinent laws of the ROC.

As of June 30, 2005 and 2006, the total numbers of employees were 26,163 and 26,867, respectively.

2. Summary of significant accounting policies

We prepared the financial statements in accordance with generally accepted accounting principles, “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and “Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries.” A summary of significant accounting policies follows:

(1) Current and non-current assets and liabilities

Current assets are assets which can be liquidated or disposed within one year. Assets other than current assets are non-current assets. Current liabilities are liabilities which will be paid-off within one year. Liabilities other than current liabilities are non-current liabilities.

(2) Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted bank deposits and all highly liquid investments with maturities of less than three months.

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**Note to financial statements-continued
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(3) Recognition of financial assets and liabilities

The Company adopted the Statements of Financial Accounting Standards of the ROC (“ROC SFAS”) No.34 “Accounting for Financial Instruments”, “Guidelines Governing the Preparation of Financial Reports by securities Issuers” and “Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries”. Financial assets are categorized as the “financial assets at fair value through profit and loss”, “held-to-maturity financial assets”, “investments in debt securities with no active market” “available-for-sale financial assets”, “financial assets carried at cost” and “derivative financial assets for hedging”. Financial liabilities are categorized as the “financial liabilities at fair value through profit and loss” and “derivative financial liabilities for hedging”. Financial assets are measured at fair value plus the cost of ownership or issuance cost at the initial recognition.

All “regular way” purchases and sales of financial assets are recorded on the trade date (i.e. the date that the Company commits to purchase or sell the asset). “Regular way” purchases or sales are transactions of financial assets that require delivery of assets within the period established by regulation or convention in the marketplace.

A. Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are categorized as held for trading or designated as assets to be measured at fair value. Gains and losses from changes in fair values of such assets are reflected in the income statement.

B. Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the intention and ability to hold to maturity. Such investments are subsequently measured at amortized cost. Gains and losses are recognized in the income statement when the investments are derecognized and impaired. The amortized cost is computed as the cost (amount initially recognized) minus principle repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the cost and the maturity amount, and less the impairment. The contracts related to the financial assets, transactions costs, fees and premiums/ discounts have been taken into consideration of the effective interest rate calculation.

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C. Investments in debt securities with no active market

Investments in debt securities with no active market are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains or losses from changes in fair value are recognized when the investments in debt securities with no active market are derecognized and impaired.

D. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or not classified in any of the three preceding categories. Gain or losses on available-for-sale financial assets shall be recognized in equity, except for impairment losses and gains or losses on exchange rate of monetary financial assets until the financial assets is derecognized, at which time the cumulative gains or losses previously recognized in equity shall be recognized in profit or loss.

E. Financial assets carried at cost

Financial assets measured at initial cost are investments to non-listed companies without significant influence or control. They are recorded at initial cost due to the fair values of the related equity instruments are not able to be reliably measured. If there is objective evidence that an impairment loss has been incurred, the amount of the loss will be recognized. The impairment loss can not be reversed.

F. Derivative financial assets for hedging

Derivative financial assets that have been designated in hedge accounting and are effective hedging instruments shall be measured at fair value.

The fair value of a listed stock or a depositary receipt is the closing price as of the balance sheet date. The fair value of an open-end fund is the net asset value of the fund as of the balance sheet date.

Financial liabilities are subsequently measured at fair value.

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**Note to financial statements-continued
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(4) Derecognizing of financial assets and liabilities

A. Financial assets

A financial asset (or a portion) is derecognized in which the control over the asset (or a portion) is surrendered. Transfer a financial asset (or a portion) is deemed a sale to the extent of consideration received when the transferor surrenders control over the assets.

If a transfer of financial assets in exchange for cash or other consideration (other than beneficial interests in the transferred assets) does not meet the criteria for a sale, the transfer is accounted for as a borrowing with collateral.

B. Financial liabilities

A financial liability (or a portion) is derecognized when the obligation under the liability agreement is discharged or cancelled or expired.

Where an existing financial liability is replaced by another one from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the respective carrying amounts is recognized in the income statement.

(5) Accounting for impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

A. Financial assets carried at amortized cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

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If, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurs after the impairment is recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

B. Financial assets measured at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is recorded as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The impairment loss can not be reversed.

C. Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

(6) Derivative financial instruments

The Company takes derivative financial instrument transactions such as forward currency contracts and futures to hedge its risks associated with foreign currency and stock fluctuations. These derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the period. For the purpose of hedge accounting, hedges are classified as:

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- A. Fair value hedges: to hedge the exposure to changes in the fair value of a recognized asset or liability;
- B. Cash flow hedges: to hedge the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction; or
- C. Hedge of a net investment in a foreign operation: to hedge the exchange rate variability risk for a net investment in a foreign operation.

At the inception of a hedge relationship, the Company formally designates and documents hedge relationship to which the Company wishes to apply hedge accounting, the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges in compliance with hedge accounting requirements are accounted for as follows:

Fair value hedges

Fair value hedges are hedges of the Company's exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk which could impact profit or loss. The carrying amount of the fair value hedged item is adjusted for gains and losses attributable to the risk being hedged. The underlying derivative is remeasured at fair value and resulting gains or losses are recognized as profit or loss.

For fair value hedge relating to item carried at amortized cost, the adjustment to carrying value is amortized through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss.

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Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss. The changes in the fair value of the hedging instrument are also recognized in profit or loss.

The Company discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Hedging instruments are subsequently measured at fair value or the gains (losses) resulting from the exchange rate changes are recognized in current period earnings by to the Statements of Financial Accounting Standards No.14 “Accounting for Foreign Currency Transactions and Translation of Foreign Financial Statements”.

Cash flow hedges

Cash flow hedges are a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while the ineffective portion is recognized in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

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If the forecast transaction is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instruments relating to the effective portion of the hedge are recognized directly in equity while any gains or losses relating to the ineffective portion are recognized in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in equity is transferred to profit or loss.

(7) Allowance for bad and doubtful debts

Based on the regulation the Company estimated the possible bad debts of accounts receivable and secured loans by evaluating customers' financial results, payments histories, collaterals and past due periods.

(8) Long – term investments under equity method

Long-term investments in equity securities are accounted for under the equity method where the Company owns more than 20% of the investee's voting stocks or the Company has significant influence over the investee company. The difference between the investment cost and the Company's share of net assets of the investee company was amortized over 5 years. However, started from January 1, 2006, such difference is no longer amortized. Newly acquired difference is analyzed and accounted for in conformity with the acquisition cost allocation as provided in SFAS No.25 "Business Combination-Accounting Treatment under Purchase Method." Goodwill is no longer amortized.

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If the investee company issues new shares and original shareholders do not purchase or acquire new shares proportionately, then the investment percentage, and the equity in net assets for the investment that the investor company has invested will be changed. Such difference shall be used to adjust the additional paid-in capital and the long-term investment under the equity method accounts.

If the adjustment stated above is to debit the additional paid-in capital account and the book balance of additional paid-in capital from long-term investments is not enough to be offset, the difference shall be debited to the retained earnings account.

Unrealized intercompany gains or losses are eliminated under the equity method. Gains or losses from sales of depreciable assets between the Company and its subsidiaries are amortized over the economic service life of the asset. Gains or losses from other types of intercompany transactions are recognized when realized.

The Company prepares semi-annual and annual consolidated financial statements which include parent company, parent controlled or significant subsidiaries.

(9) Investments in real estate

Investments in real estate are stated at cost when acquired.

Improvements and major renovation of investments in real estate are capitalized, while repairs and maintenance are expensed immediately.

Upon disposal, the related cost, accumulated depreciation and accumulated impairment are eliminated and gains and losses are recorded in operating gains and losses accounts.

Depreciation is calculated using the straight-line method in accordance with the “Estimated Useful Life of Fixed Assets Table” published by the Executive Yuan of the ROC (the “Executive Yuan Depreciation Table”).

Real estate investment primarily is for business leasing purposes; rents can be paid annually, semi-annually, quarterly, monthly or in a lump sum.

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(10) Property and equipment

Property and equipment are stated at cost or cost plus appreciation. When reevaluating property and equipment, land and other properties shall be reevaluated separately. Property appreciation shall be recorded under “capital surplus”, according to applicable regulations. The capital surplus can only be used to offset operating losses and to increase capital.

Major improvements, additions, and renewals are capitalized, while repairs and maintenance are expensed when incurred.

Upon the sale or disposal of properties and equipment, their cost, related accumulated depreciation and accumulated impairment are removed from respective accounts. Gain or loss resulting from such sale or disposal is accounted for as non-operating gain or loss.

Depreciation is calculated using the straight-line method over the estimated service lives prescribed by the Executive Yuan Depreciation Table. Property and equipment that are still in use after their useful lives are depreciated on the residual value and the newly estimated remaining useful lives.

(11) Intangible assets

“Computer software costs” are stated at cost and amortized over 3 years using straight-line method.

(12) Deferred charges

According to the regulations established by the ROC Ministry of Finance (the “MOF”), the Company created a “stabilization fund” and an offsetting account “stabilization fund reserve”. These two accounts are not listed in the financial statements due to their offsetting nature. From 1993 to June 30, 2006, an aggregate of NT\$2,689,954 (US\$83,203) was appropriated to this fund.

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(13) Accounting for Assets Impairment

Pursuant to SFAS No. 35, the Company assesses indicators for impairment for all its assets within the scope of SFAS No. 35 at each balance sheet date. If impairment indicators exist, the Company shall then compare the carrying amount with the recoverable amount of the assets or the cash-generating unit (“CGU”) and write down the carrying amount to the recoverable amount where applicable. Recoverable amount is defined as the higher of fair values less costs to sell and the values in use.

For previously recognized losses, the Company shall assess, at each balance sheet date, whether there is any indication that the impairment loss may no longer exist or may have decreased. If there is any, the Company has to recalculate the recoverable amount of the asset. If the recoverable amount increases as a result of the increase in the estimated service potential of the assets, the Company shall reverse the impairment loss to the extent that the carrying amount after the reversal would not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the assets in prior years.

In addition, a goodwill-allocated CGU or group of CGUs is tested for impairment at the same day of each year, regardless of whether an impairment indicator exists. Any impairment loss is recognized to reduce the carrying amount of the assets of the CGU or the group of CGUs in the following order:

- (a) first, to reduce the carrying amount of any goodwill allocated to the CGU or group of CGUs; and
- (b) if the goodwill has been written off, to reduce the other assets of the CGU or group of CGUs pro rata to their carrying amount.

The write-down in goodwill cannot be reversed under any circumstances in subsequent periods. Impairment loss (reversal) is classified as non-operating losses (income).

(14) Real Estate Investment Trust (REIT)

The Company has adopted “Accounting Treatment under Real Estate Securitization” with the Accounting Research and Development Foundation.

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Once the sales process is complete and the transferor has transferred his risk and ownership of the real estate property to the transferee, gain on disposal of real estate shall be recognized under “total amount accrual method”.

If the originator and its related parties do not participate in the initial offering but subsequently acquire the REIT beneficiary securities less than 20% of its outstanding shares from the TSE at fair market value within three months after the issue date, the transfer and purchase transaction are deemed two independent transactions due to the subsequent purchase transaction has no significant influence over the transfer transaction. However, if the originator and its related parties subsequently acquire the REIT beneficiary securities over 20% of its outstanding shares within three months after the issue date, the subsequently acquired portion is not deemed a sale and therefore gain or loss on disposal of real estate for the originator related to the subsequently acquired portion shall be deferred.

(15) Guaranteed depository insurance payment

According to Article 141 of the ROC Insurance Law (the “Insurance Law”), an amount equal to 15% of the Company’s capital stock must be deposited in the form of a bond with the Central Bank of China (the “Central Bank”) as the “Guaranteed Depository Insurance”.

(16) Reserve for operations

Reserves for operations are organized according to the Insurance Law. These reserves include the unearned premium reserve, claim reserve, special reserve, and reserve for life insurance. Actuaries provide the figures for these reserves.

In addition, according to the MOF regulation which became effective from December 30, 2002, the surplus from the “Special Reserve for the Loss Movement” should be placed as special reserve under proprietary equity after the Board of Directors approved the surplus appropriation. This amount may not be distributed or used for other purposes unless approved by the MOF.

The Company had a surplus of NT\$14,133,703 (US\$437,170) from the “Special Reserve for the Loss Movement” as of June 30, 2006.

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(17) Insurance premium income and expenses

In accordance with “The General Accounting Systems for Insurance Companies” published by the Finance Ministry of the ROC, the Company records direct premiums as income at the time of cash receipts. Related expenses (commissions, brokerage fees, etc.) are recognized on an accrual basis.

(18) Pension plan

The Company has established a pension plan for all employees. Pension plan benefits are primarily based on participants’ compensation and the length of service.

The Labor Pension Act of R.O.C. (“the Act”), which adopts a defined contribution scheme, takes effect from July 1, 2005. In accordance with the Act, employees of the Company may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, the Company shall make monthly contributions to the employees’ individual pension accounts on a basis no less than 6% of the employees’ monthly wages.

In compliance with ROC Securities and Futures Commissions (“SFC”) regulations, the Company adopted the ROC SFAS No. 18, “Accounting for Pensions”. An actuarial valuation of pension liability is performed on the balance sheet date, and a minimum pension liability is recorded in the financial statements based on the difference between the accumulated benefit obligation and the fair value of plan assets.

According to the ROC SFAS No.23, “Interim Financial Reporting and Disclosures”, the interim financial statements are not required to follow the principles outlined in the ROC SFAS No. 18, “Accounting for Pensions”.

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(19) Foreign currency transactions

A. Conversion of foreign currency transactions

Foreign currency transactions should be accounted for at cost and recognized on a straight-line method recorded in NT dollars at the spot rate when the transactions occur. Any gains or losses resulting from adjustments or settlements of foreign currency assets and liabilities are credited or charged to income. All assets and liabilities stated in foreign currency are converted into New Taiwan Dollars at the exchange rate on the balance sheet date. And any gains or losses resulting from the transactions are recognized as current income.

B. Conversion of foreign subsidiaries' financial statements

Financial statements of foreign subsidiaries under the equity method are converted into NT dollars based on follows: all assets and liabilities denominated in foreign currencies are converted into NT dollars at the exchange rate on the balance sheet date. Stockholders' equity items are converted based on the historical rates except for the opening balance of retained earnings, which is posted directly from the year end balance of previous year. Income statement items are converted by the weighted-average exchange rate of the fiscal year. Differences arising from above conversion are reported as "cumulative conversion adjustments" under stockholders' equity.

Before converting into the local currency, the foreign currency financial statements need to be converted into the functional currency if the foreign currency is not the functional currency. This process will have the same result as if the transactions are recorded in the functional currency from the beginning. The foreign exchange gain or loss from the conversion is recognized in the current period due to the impact to the cash flows of the foreign operation.

(20) Income taxes

The Company adopted SFAS No. 22, "Accounting for Income Taxes", which requires inter-period and intra-period tax allocations in addition to computing current period income tax payable. Furthermore, it requires recognition of temporary differences between deferred income tax liabilities, deferred income tax assets, prior

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year's loss carry forwards and investment tax credits. The valuation allowance is recognized if evidence shows it is more likely than not that a part or all of the deferred tax assets will not be realized. The prior year's income tax expenses adjustment should be recorded as current period income tax expenses in the year of adjustment.

Deferred income tax assets and liabilities are classified as current or non-current depending on the underlying assets or liabilities. Deferred income taxes not relating to any assets or liabilities are classified as current or non-current based on the length of the expected realizable or reversible period.

The Company has adopted SFAS No. 12, "Accounting for Income Tax Credits" in dealing with income tax credits. Accordingly, the income tax credits resulting from expenditures on the purchase of equipment and technology, research and development, education training, and investment in equity are accounted for by the flow-through method.

The additional 10% income tax imposed on undistributed earnings is recognized as expense on the date of shareholders' meeting.

In accordance with Article 49 of the Financial Holding Company Act, the Company and its parent company jointly filed corporation income tax returns and 10% surcharge on its undistributed retained earnings since 2002 under the Integrated Income Tax System. If there is any tax effects due to the adopt foregoing Integrated Income Tax System, parent company can proportionately allocate the effects on tax expense (benefit), deferred income tax and tax payable (tax refund receivable) among the Company and its parent company.

Effective from January 1, 2006, the Company adopted "Income Basic Tax Act" and "Enforcement Rules of Income Basic Tax Act" to estimate and file joint income basic tax.

(21) Capital expenditure expenses

Capital expenditure is capitalized and amortized over its useful life if it involves a significant amount and may generate revenues in future periods. Otherwise, it is expensed in the year as incurred.

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(22) Separate account products

The Company sells Separate account products, of which the insured should pay the insurance fees according to the agreement amount less the expenses incurred by the insured. In addition, the investment distribution is approved by the insured and then transferred to specific accounts as requested by the insured. The value of these specific accounts is determined based on the market value on the applicable day, and its net value is determined based on the accounting principles and practices generally accepted in the ROC.

The Company has established special journals for assets, liabilities, and revenues and expenses accounts in accordance with accounting regulation of “Accounting standards in separate account”. The above accounts are recorded under the line items of “Separate account products assets”, “Separate account products liabilities”, “Separate account products revenues”, and “Separate account products expenses”.

(23) Significant accounting policies used in 2005

A. Short-term investments

Marketable equity securities are stated at the lower of cost or market value. Stock dividends are not recognized as income but treated as an increase in the number of shares. Cost of marketable equity securities sold is determined based on the weighted-average method. Market price is the weighted-average closing price of the month before the balance sheet date.

Beneficiary certificates are stated at the lower of cost or market. The cost of beneficiary certificates sold is determined based on the weighted-average method.

Short-term notes are recorded at cost when acquired and stated at the lower of cost or market value at each balance sheet date, if the market value is available. The cost of notes, interest income, and gain or loss, either due to maturity or resulting from the sale of notes, is determined by specific identification method.

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Overseas investment trust funds are investments in foreign securities made through financial institutions with pre-determined purposes. The trust funds are recorded at the amount originally remitted and stated at the lower of cost or market value at each balance date. Realized interest, dividends and disposal gain, which are remitted back are recognized at the amount received in the current period. Realized gains or losses which are not remitted back are recognized based on the net equity as reported by the trustee each month. The trust funds are translated into NT dollars using the spot rate at each balance sheet date. Any exchange difference is charged to income statement accounts.

Bonds and convertible bonds are recorded at the lower of cost or market value. The cost of these bonds sold is determined based on the weighted-average method.

B. Long-term investments

(A) Long-term investments in stocks

Long-term investments in listed companies for which the Company's ownership interest is less than 20% of the voting stock, and which the Company lacks significant influence over operating and financial policies of the investee, are stated at the lower of cost or market value. Unrealized loss thereon is reflected as a reduction of shareholders' equity. Long-term investments in unlisted companies, in which the Company's ownership interest accounted for less than 20% of the common stock, are stated at cost. However, when there is evidence showing that a decline in market value of such investment is not temporary and is already less than cost, the market value becomes the new cost basis and the difference is accounted for as if it were a realized loss, and included in the determination of net income. Stock dividends are not recognized as income but treated as an increase in the number of shares held. Upon sales of long-term equity investments (accounted for under the cost method), the difference between the weighted-average cost and sales price is used to compute the resulting gain or loss.

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Investments in equity securities are accounted for under the equity method where the Company's ownership interest is 20% or more of the voting shares and the Company have significant operational influence.

The cost of the disposal of an investment is determined by the weighted-average method.

(B) Long-term investments in bonds

Long-term investments in bonds are accounted for at cost, and any premium or discount is amortized based on a reasonable and systematic basis.

C Derivative financial products transaction

(A) Forward foreign exchange contracts for hedging purposes

The purpose of the forward exchange contracts held by the Company is to hedge the risks that may result from changes in currency rates. Transactions on forward foreign exchange contracts are recognized based on the spot rate at the contract date. The difference between the spot rate and the agreed forward rate is amortized over the contract period. The exchange gains or losses resulting from the adjustments of the spot rate on the balance sheet date are credited or charged to current income.

(B) Currency swap (CS)

The purpose of the CS held by the Company is to hedge the risks that may result from changes in currency rates. CS transactions are recognized based on the spot rate at the contract date. The difference between the spot rate and the agreed forward rate is amortized over the contract period. The exchange gains or losses resulting from the adjustments of the spot rate on the balance sheets date are recognized in the current period. The exchange gains or losses resulting from the settlement of the swap are credited or charged to current income at the settlement date.

The receivables and payables of the foreign currency and forward exchange contracts are presented on a net basis in the balance sheets.

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(C) Cross-currency swap (CCS)

The purpose of the CCS held by the Company is to hedge the risks that may result from changes in currency rates and interest rates. CCS transactions are recognized based on the spot rate at the contract date. Interest rates are determined according to the applicable interest rates within the agreed period. The difference is credited or charged to the current income.

(D) Interest rate swap agreements (IRS)

The interest rate swap agreements are used for the purpose of hedging risks against interest rate fluctuations and are adjusted for interest revenue or expenses based on the interest difference as of the agreed date of settlement.

(E) Options

The premium for an option contract is recorded at cost. When early settled, the cost of options calculated using the first-in first-out method. Options are measured at fair market value at each balance sheet date. Any gain or loss arising from hedging risks associated with the existing asset or liability is recognized as a current period's gain or loss. Gains or losses arising from hedging risks associated with anticipated transactions are deferred until the transaction date, and recognized as an adjustment of the transaction price.

(F) Futures

Only memo entries are made on the contract date. Any gain or loss arising from hedging risks associated with the existing asset or liability is recognized as a current period's gain or loss. Gains or losses arising from hedging risks associated with anticipated transactions are deferred until the transaction date, and recognized as an adjustment of the transaction price.

(24) Conversion to U.S. dollars

The financial statements are stated in NT dollars. The converted U.S. dollars amounts from NT dollars as of June 30, 2005 and 2006 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$31.64 and NT\$32.33 provided by Federal Reserve Bank of New York of June 30, 2005 and 2006 are used for the conversion.

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3. Changes in accounting and its effects

The Company adopted the ROC Statements of Financial Accounting Standards No.34 “Accounting For Financial Instruments” (SFAS No.34) and No.36. “Disclosure and Presentation of Financial Instruments” (SFAS No.36) beginning on and after January 1, 2006 (the “effective date”).

The above change in accounting principles increased the Company’s current assets, current liability, funds and investments and stockholders’ equity by NT\$5,377,249 (US\$166,324), NT\$2,061,394 (US\$63,761), NT\$9,914,421 (US\$306,663) and NT\$9,914,421 (US\$306,663) as of January 1, 2006, respectively. It also increased the company’s net income and earnings per share by NT\$3,315,855 (US\$102,563) and NT\$0.66 (US\$0.02), respectively, for the six months ended June 30, 2006.

The Company adopted the R.O.C. Statement of Financial Accounting Standards No.5, “Accounting for long-term investments in stocks under the equity method” (“SFAS No.5 (r5)”) and No.25, “Business Combinations-Accounting Treatment under Purchase Method” to account for the difference between the acquisitions cost and the Company’s share of net assets of equity investee for its financial statements beginning on and after January 1, 2006 (the “effective date”). Goodwill is not amortized. Such change in accounting principles decreased the Company’s long-term equity investments by NT\$1,401(US\$43) as of June 30, 2006, and decreased the Company’s net income by NT\$1,401(US\$43) for the six months ended June 30, 2006. The Company considers the effect insignificant.

“Accounting for Asset Impairment” (“SFAS No.35”) to account for the impairment of its assets for its financial statements ended on and after June 30, 2005. No retroactive adjustment is required under SFAS No. 35. Such a change in accounting principles decreased the Company’s investments in real estate and property and equipment by NT\$199,599 (US\$6,308) and NT\$85,519 (US\$2,703) as of June 30, 2005, respectively, and decreased the Company’s net income by NT\$285,118 (US\$9,011) for the six months ended June 30, 2005. The Company considers such an effect was insignificance.

In the first quarter of 2005, the Company adopted the amended ROC’s Statement of Financial Accounting Standards No. 5, “Long-term Investment in Equity securities” (“SFAS No. 5 (r3)”). Under the SFAS No. 5(r3), a deferred equity pick-up for being unable to obtain the financial statements of equity investees is no longer allowed. No

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retrospective adjustments are needed. Such a change in accounting principles increase the Company's long-term investment account by NT\$34,580 (US\$1,093) as of June 30, 2005, cumulative conversion adjustments increased by NT\$347 (US\$11), unrealized valuation losses on long-term equity investments decrease by NT\$27,230 (US\$861) and net income increased by NT\$7,003 (US\$221) for the six months ended June 30, 2005, respectively. Such an effect is not considered significant.

4. Cash and cash equivalents

	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$346,142	\$10,940	\$278,285	\$8,608
Cash in banks	43,069,734	1,361,243	4,645,956	143,704
Time deposits	144,046,462	4,552,670	231,773,334	7,168,987
Cash equivalents	64,944,911	2,052,620	37,376,368	1,156,089
Total	<u>\$252,407,249</u>	<u>\$7,977,473</u>	<u>\$274,073,943</u>	<u>\$8,477,388</u>

As of June 30, 2005 and 2006, the amounts of time deposits with maturities beyond one year were NT\$5,809,500(US\$183,613) and NT\$185,690(US\$5,744), respectively.

5. Financial assets at fair value through profit and loss – current

	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$28,680,552	\$906,465	\$19,702,733	\$609,426
Overseas stocks	768,267	24,282	2,216,337	68,554
Beneficiary certificates	38,825,141	1,227,090	51,981,047	1,607,827
Exchange traded funds	2,126,032	67,194	1,821,761	56,349
Overseas bonds	19,547,724	617,817	13,678,375	423,086
Corporate bonds	592,570	18,729	537,474	16,625
Government bonds	22,243,967	703,033	22,249,501	688,200
Financial debentures	525,324	16,603	518,779	16,046
Derivative financial instruments	6,596,271	208,479	3,834,474	118,604
Sub-total	119,905,848	3,789,692	116,540,481	3,604,717
Add: Adjustment of valuation	-	-	5,636,421	174,340
Total	<u>\$119,905,848</u>	<u>\$3,789,692</u>	<u>\$122,176,902</u>	<u>\$3,779,057</u>

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6. Available-for-sale financial assets-current

	June 30,			
	2005		2006	
	NT \$	US\$	NT \$	US\$
Listed stocks	\$74,225,307	\$2,345,933	\$61,586,648	\$1,904,938
Overseas stocks	29,317,289	926,589	6,798,666	210,290
Overseas Beneficiary certificates	3,252,819	102,807	3,180,186	98,366
Exchange traded funds	-	-	122,857	3,800
Real estate investment trust	-	-	3,302,115	102,138
Subtotal	106,795,415	3,375,329	74,990,472	2,319,532
Add: Adjustment of valuation	-	-	7,508,718	232,252
Total	<u>\$106,795,415</u>	<u>\$3,375,329</u>	<u>\$82,499,190</u>	<u>\$2,551,784</u>

7. Derivative financial assets for hedging-current

	June 30,			
	2005		2006	
	NT \$	US\$	NT \$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	-	-	326,925	10,112
Total	<u>\$-</u>	<u>\$-</u>	<u>\$326,925</u>	<u>\$10,112</u>

8. Loans

(1) Policy loans

A. Policy loans were secured by policies issued by the Company.

B. Pursuant to MOF regulations, insurance applicants who are unable to meet their insurance installments after their second installment becomes overdue can make written statements, requesting that the Company pay the premium and interest payable by using the Company's "policy value reserve" prior to the due date or before the insurance contract's termination date. However, applicants may also choose to inform the Company by writing to stop paying such installments.

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(2) Secured loans

	June 30,			
	2005		2006	
	NT \$	US\$	NT \$	US\$
Secured loans	\$280,158,209	\$8,854,558	\$283,391,178	\$8,765,579
Less: Allowance for bad				
debts	(1,828,548)	(57,793)	(300,821)	(9,304)
Sub-total	278,329,661	8,796,765	283,090,357	8,756,275
Overdue receivables	1,257,293	39,738	1,393,023	43,087
Less: Allowance for bad				
debts	(628,647)	(19,869)	(975,116)	(30,161)
Sub-total	628,646	19,869	417,907	12,926
Total	<u>\$278,958,307</u>	<u>\$8,816,634</u>	<u>\$283,508,264</u>	<u>\$8,769,201</u>

Secured loans are secured by government bonds, stocks, corporate bonds and real estate.

9. Available-for-sale financial assets-noncurrent

	June 30,			
	2005		2006	
	NT \$	US\$	NT \$	US\$
Corporate bonds	\$10,955,925	\$346,268	\$16,749,931	\$518,092
Government bonds	15,920,342	503,171	16,350,376	505,734
Financial debentures	14,438,705	456,344	28,378,871	877,788
Collateralized loans obligation				
and collateralized bonds				
obligation	-	-	1,031,102	31,893
Overseas bonds	84,582,078	2,673,264	78,100,364	2,415,724
Real estate asset trusts	20,000	632	-	-
Sub-total	125,917,050	3,979,679	140,610,644	4,349,231
Less: Adjustment of valuation	-	-	(2,079,571)	(64,323)
Total	<u>\$125,917,050</u>	<u>\$3,979,679</u>	<u>\$138,531,073</u>	<u>\$4,284,908</u>

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10. Held-to-maturity financial assets-noncurrent

	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$8,438,403	\$266,700	\$8,095,991	\$250,417
Government bonds	20,558,191	649,753	19,349,914	598,513
Financial debentures	7,924,282	250,451	16,520,634	511,000
Collateralized loans obligation and collateralized bonds obligation	110,417	3,490	9,454,009	292,422
Overseas bonds	343,917,173	10,869,696	479,479,104	14,830,780
Sub-total	380,948,466	12,040,090	532,899,652	16,483,132
Less: securities serving as deposits paid – bonds	(8,075,676)	(255,236)	(8,126,646)	(251,365)
Total	<u>\$372,872,790</u>	<u>\$11,784,854</u>	<u>\$524,773,006</u>	<u>\$16,231,767</u>

11. Financial assets carried at cost - noncurrent

	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Stocks	\$21,333,510	\$674,258	\$20,159,255	\$623,546

12. Structured notes

One of the financial assets investment structured notes, amounted to NT\$42,522,503 (US\$1,343,948) and NT\$85,821,578 (US\$2,654,549) as of June 30, 2005 and 2006, respectively. The details of structured notes are listed below:

Item	June 30, 2006					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit and loss-current	\$2,881,778	\$89,136	\$(148,281)	\$(4,586)	\$2,733,497	\$84,550
Available-for-sale financial assets-noncurrent	14,277,218	441,609	(26,760)	(828)	14,250,458	440,781
Held-to-maturity financial assets-noncurrent	68,024,843	2,104,078	-	-	68,024,843	2,104,078
Investments in debt securities with no active market-noncurrent	812,780	25,140	-	-	812,780	25,140
Total	<u>\$85,996,619</u>	<u>\$2,659,963</u>	<u>\$(175,041)</u>	<u>\$(5,414)</u>	<u>\$85,821,578</u>	<u>\$2,654,549</u>

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13. Long-term investments under equity method

(1) Long-term investments under equity method

Investee	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
	Book value	Book value	Book value	Book value
WK Technology Fund VI Co., Ltd.	\$361,530	\$11,426	\$399,071	\$12,344
Vista Technology Venture Capital Corp.	44,751	1,414	39,508	1,222
Omnitek Venture Capital Corp.	161,420	5,102	343,716	10,631
WaTech Venture Capital Co., Ltd.	148,434	4,691	164,617	5,092
IBT Venture Capital Corp.	508,247	16,063	597,809	18,491
Cathay Insurance (Bermuda) Co., Ltd.	59,492	1,880	66,403	2,054
Symphox Information Co., Ltd.	265,795	8,401	259,909	8,039
Cathay Securities Investment Trust Co., Ltd.	219,630	6,942	220,310	6,814
Cathay Venture Capital Corp.	377,137	11,920	440,847	13,636
Lin Yuan Property Management Co., Ltd.	40,508	1,280	-	-
Cathay Securities Investment Co., Ltd.	29,710	939	104,103	3,220
Cathay Life Insurance Ltd. (Shanghai)	1,482,427	46,853	1,545,393	47,801
Total	\$3,699,081	\$116,911	\$4,181,686	\$129,344

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(2) Changes in long-term investments in stocks under the equity method are summarized below:

	For the six months ended June 30,			
	2005		2006	
	NT \$	US\$	NT \$	US\$
Balance as of January 1	\$3,602,793	\$113,868	\$3,883,938	\$120,134
Add: Gain on investments under equity method	37,214	1,176	190,556	5,894
Capital surplus- long-term equity investment	562	18	-	-
Additional investment	155,000	4,899	-	-
Unrealized gain or loss on financial instruments- long-term equity investment	(3,176)	(100)	236,542	7,317
Less: Cash dividends	(45,607)	(1,441)	(122,585)	(3,792)
Recovered proceeds of long-term investments	(24,061)	(761)	-	-
Cumulative conversion adjustments	(23,644)	(748)	(6,765)	(209)
Balance as of June 30	<u>\$3,699,081</u>	<u>\$116,911</u>	<u>\$4,181,686</u>	<u>\$129,344</u>

(3) The recognized equity investment gains (losses) for the six months ended June 30, 2005 and 2006 are listed below:

Investee	For the six months ended June 30,			
	2005		2006	
	NT \$	US\$	NT \$	US\$
WK Technology Fund VI Co., Ltd.	\$ (10,205)	\$ (323)	\$ 7,896	\$ 244
Vista Technology Venture Capital Corp.	(9,719)	(307)	(265)	(8)
Omnitek Venture Capital Corp.	9,924	314	72,397	2,239
WaTech Venture Capital Co., Ltd.	(6,400)	(202)	19,374	599

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Investee	For the six months ended June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
IBT Venture Capital Corp	22,003	695	49,961	1,545
Cathay Insurance (Bermuda) Co., Ltd.	414	13	(174)	(5)
Symphox Information Co., Ltd.	(26)	(1)	(7,161)	(221)
Cathay Securities Investment Trust Co., Ltd.	20,185	638	29,374	908
Cathay Venture Capital Corp.	18,796	594	30,409	941
Lin Yuan Property Management Co., Ltd.	14,484	458	-	-
Cathay Securities Investment Co., Ltd.	4,048	128	10,367	321
Cathay Life Insurance Ltd. (Shanghai)	(26,290)	(831)	(21,622)	(669)
Total	<u>\$37,214</u>	<u>\$1,176</u>	<u>\$190,556</u>	<u>\$5,894</u>

- A. The equity investment gains (losses) were recognized based on their respective financial statements for the six months ended June 30, 2006. The financial statements of WK Technology Fund VI Co., Ltd. Omnitek Venture Capital Corp., Wa Tech Venture Capital Co., Ltd. IBT Venture Capital Corp. and Cathay Securities Investment Trust Co., Ltd. for the six months ended June 30, 2006, were audited by other auditors with explanatory paragraph within the modified unqualified audit report except the Cathay Insurance (Bermuda) Co., Ltd., which had an unqualified audit report.
- B. The equity investment gains (losses) were recognized based on their audited financial statements for the six months ended June 30, 2005, except for Wa Tech Venture Capital Co., Ltd. was recognized based on the unaudited financial statement.
- C. Effective from January 1, 2005, the Company adopted SFAS No. 7 “Consolidated Financial Statements” which was revised on December 9, 2004. The adoption of SFAS No. 7 resulted in superseding the requirement of the total assets and operating revenues which was under 10% of parent company may not need to prepare consolidated financial statements and restate its prior period consolidated financial statement.

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According to the regulations of FSC on March 29, 2005, the consolidated financial statements of the Company as of and for the period ended June 30, 2006 should be published from January 1, 2006. The consolidated financial statements of the Company as of and for the period ended June 30, 2006 include the Company and its subsidiaries, which include Symphox Information Co., Ltd., Cathay Venture Capital Corp., and Cathay Life Insurance Ltd. (Shanghai). The consolidated financial statements of the Company as of and for the six months ended June 30, 2006 excluded Cathay Insurance (Bermuda) Co., Ltd and Cathay securities Investment Co., Ltd because their total assets and operating revenues were insignificant of the total assets and operating revenues of the Company.

14. Investments in real estate:

		June 30, 2005									
		Cost		Revaluation surplus		Accumulated depreciation		Accumulated impairment		Net value	
Item		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in											
real estate		\$113,453,569	\$3,585,764	\$4,563	\$144	\$(14,088,344)	\$(445,270)	\$(199,599)	\$(6,308)	\$99,170,189	\$3,134,330
Construction		2,271,545	71,793	-	-	-	-	-	-	2,271,545	71,793
Total		<u>\$115,725,114</u>	<u>\$3,657,557</u>	<u>\$4,563</u>	<u>\$144</u>	<u>\$(14,088,344)</u>	<u>\$(445,270)</u>	<u>\$(199,599)</u>	<u>\$(6,308)</u>	<u>\$101,441,734</u>	<u>\$3,206,123</u>
		June 30, 2006									
		Cost		Revaluation surplus		Accumulated depreciation		Accumulated impairment		Net value	
Item		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in											
real estate		\$118,227,310	\$3,656,892	\$4,215	\$130	\$(13,806,156)	\$(427,039)	\$(196,952)	\$(6,092)	\$104,228,417	\$3,223,891
Construction		708,633	21,919	-	-	-	-	-	-	708,633	21,919
Total		<u>\$118,935,943</u>	<u>\$3,678,811</u>	<u>\$4,215</u>	<u>\$130</u>	<u>\$(13,806,156)</u>	<u>\$(427,039)</u>	<u>\$(196,952)</u>	<u>\$(6,092)</u>	<u>\$104,937,050</u>	<u>\$3,245,810</u>

- (1) The real estate investments are held mainly to generate rental revenue.
- (2) Rents from real estate investment can be paid annually, semi-annually, quarterly, monthly or in a lump sum.
- (3) No investments in real estate were pledged as collateral.

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(4) The Company has securitized its real estate properties such as the Sheraton Taipei Hotel, Taipei Xi-Men Building and Taipei Zhong Hwa Building in 2005. The accounting treatment of these transactions is conformed to the regulations of the Accounting Research and Development Foundation. The relative information was disclosure as following:

The Company transferred the risk and returns of ownership of the real estate property to the assignee and the gain on disposal of real estates under “total amount accrual method” was NT\$8,627,731 (US\$272,684).

After the REIT was issued, the sponsor and related parties of the Company did not participate in the original offering. Instead, the Company bought the REIT beneficiary securities which were issued within three months and its ownership was over the 20% of the REIT fund’s outstanding should be treated as a part of unsold real estate. The Company had deferred gain on disposal of real estate by percentage of REIT outstanding securities holding by the company. As of June 30, 2006, the Company ownership was under the 20% of REIT fund’s outstanding securities. Thus, the amount of deferred gain on disposal of real estate was NT\$1,773,919 (US\$54,869) has been recognized in current.

15. Property and equipment

Item	June 30, 2005									
	Cost		Revaluation surplus		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,098,236	\$161,133	\$2,212	\$70	\$-	\$-	\$(51,331)	\$(1,622)	\$5,049,117	159,581
Buildings and construction	10,874,798	343,704	-	-	(3,140,839)	(99,268)	(34,188)	(1,081)	7,699,771	243,355
Computer equipment	1,426,441	45,084	-	-	(995,100)	(31,451)	-	-	431,341	13,633
Communication and transportation equipment	75,254	2,378	-	-	(44,200)	(1,397)	-	-	31,054	981
Other equipment	3,164,792	100,025	-	-	(1,839,156)	(58,127)	-	-	1,325,636	41,898
Sub-total	<u>20,639,521</u>	<u>652,324</u>	<u>2,212</u>	<u>70</u>	<u>(6,019,295)</u>	<u>(190,243)</u>	<u>(85,519)</u>	<u>(2,703)</u>	<u>14,536,919</u>	<u>459,448</u>
Construction in progress and prepayment for equipment	17,412	550	-	-	-	-	-	-	17,412	550
Total	<u>\$20,656,933</u>	<u>\$652,874</u>	<u>\$2,212</u>	<u>\$70</u>	<u>\$(6,019,295)</u>	<u>\$(190,243)</u>	<u>\$(85,519)</u>	<u>\$(2,703)</u>	<u>\$14,554,331</u>	<u>\$459,998</u>

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Item	June 30, 2006									
	Cost		Revaluation surplus		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$4,791,136	\$148,195	\$1,472	\$46	\$-	\$-	\$(51,331)	\$(1,588)	\$4,741,277	\$146,653
Buildings and construction	10,035,621	310,412	-	-	(3,133,853)	(96,934)	(34,188)	(1,057)	6,867,580	212,421
Computer equipment	1,564,356	48,387	-	-	(1,126,747)	(34,851)	-	-	437,609	13,536
Communication and transportation equipment	35,510	1,098	-	-	(22,954)	(710)	-	-	12,556	388
Other equipment	3,272,224	101,213	-	-	(2,073,769)	(64,144)	-	-	1,198,455	37,069
Sub-total	<u>19,698,847</u>	<u>609,305</u>	<u>1,472</u>	<u>46</u>	<u>(6,357,323)</u>	<u>(196,639)</u>	<u>(85,519)</u>	<u>(2,645)</u>	<u>13,257,477</u>	<u>410,067</u>
Construction in progress and prepayment for equipment	13,751	426	-	-	-	-	-	-	13,751	426
Total	<u>\$19,712,598</u>	<u>\$609,731</u>	<u>\$1,472</u>	<u>\$46</u>	<u>\$(6,357,323)</u>	<u>\$(196,639)</u>	<u>\$(85,519)</u>	<u>\$(2,645)</u>	<u>\$13,271,228</u>	<u>\$410,493</u>

No properties or plants and equipments were pledged as collaterals as of 30 June 2005 and 2006.

16. Other overdue receivables

	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$873,266	\$27,600	\$75,689	\$2,341
Allowance for bad and doubtful debts	(33,666)	(1,064)	(40,903)	(1,266)
Total	<u>\$839,600</u>	<u>\$26,536</u>	<u>\$34,786</u>	<u>\$1,075</u>

17. Financial liabilities at fair value through profit and loss-current

Item	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$1,768,497	\$55,894	\$55,771	\$1,725
Add: Adjustment of valuation	-	-	17,149,726	530,458
Total	<u>\$1,768,497</u>	<u>\$55,894</u>	<u>\$17,205,497</u>	<u>\$532,183</u>

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18. Derivative financial liabilities for hedging-current

Item	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	-	-	22,695	702
Total	\$-	\$-	\$22,695	\$702

19. Capital stock

As of June 30, 2005 and 2006, the total authorized thousand shares were 5,068,616 with par value of NT\$10 each.

20. Retained earnings

(1) Legal reserve

Pursuant to the ROC Company Law, 10% of the Company's net income shall be appropriated as legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can be used to offset deficit but cannot be used for the purpose of cash dividend distributions. However, if the total legal reserve is greater than 50% of the issued shares capital, up to 50% of such excess may be capitalized if authorized by the Board of Directors.

(2) Undistributed retained earnings

A. According to the Company Law and the Company's articles of incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deficit, if any, shall be appropriated as legal reserve. After distributing stock interests and 2% of the total remaining amount as a bonus distribution to employees, the remainder is distributed in accordance with the resolutions of the Board of Directors.

B. According to applicable regulations, if the assessed undistributed retained earnings prior to 1997 exceeded 100% of the Company's paid-in capital, the Company must distribute cash dividends or stock dividends following the year of the assessment. Otherwise, income tax will be levied on each shareholder's proportion of the total undistributed retained earnings. Alternatively, the Company may pay an extra 10% income tax on the additional undistributed retained earnings.

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C. According to the amended Income Tax Law (“Tax Law”) in 1998, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year.

D. Pursuant to the explanatory letter of SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized loss of financial instruments expect for the legal reserve since 2007.

21. Personnel 、 depreciation 、 depletion and amortizations

Item	For the six months ended June 30, 2005			For the six months ended June 30, 2005		
	NT\$			US\$		
	Operating costs	Operating expense	Total	Operating costs	Operating expense	Total
Personnel expenses						
Salary and wages	\$10,208,150	\$1,492,714	\$11,700,864	\$322,634	\$47,178	\$369,812
Labor & health insurance expenses	521,536	95,017	616,553	16,484	3,003	19,487
Pension expenses	233,067	42,462	275,529	7,366	1,342	8,708
Other expenses	458,149	97,507	555,656	14,480	3,082	17,562
Depreciation	-	1,102,045	1,102,045	-	34,831	34,831
Amortizations	-	14,743	14,743	-	466	466

Item	For the six months ended June 30, 2006			For the six months ended June 30, 2006		
	NT\$			US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$11,626,517	\$1,556,722	\$13,183,239	\$359,620	\$48,151	\$407,771
Labor & health insurance expenses	554,106	83,433	637,539	17,139	2,581	19,720
Pension expenses	327,497	49,312	376,809	10,130	1,525	11,655
Other expenses	446,028	84,769	530,797	13,796	2,622	16,418
Depreciation	-	1,158,589	1,158,589	-	35,836	35,836
Amortizations	-	41,861	41,861	-	1,295	1,295

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22. Estimated income taxes

(1) Income tax expenses include the following:

	For the six months ended June 30,			
	2005		2006	
	NT \$	US\$	NT \$	US\$
Income before taxes	\$3,264,446	\$103,175	\$1,927,573	\$59,621
Adjustments				
Interest income of tax on a separate basis	(1,035,772)	(32,736)	(1,951,819)	(60,372)
Gain on disposal of securities and futures	(6,217,171)	(196,497)	(4,756,867)	(147,135)
Losses from valuation of financial assets and liabilities	-	-	11,639,568	360,024
Gains on disposal of lands	-	-	(2,830,475)	(87,549)
Unrealized exchange losses	903,012	28,540	5,269,481	162,990
Impairment loss	285,118	9,011	-	-
Cash dividend	(343,635)	(10,861)	(606,032)	(18,745)
Pension expense not actually contributed	136,750	4,322	29,843	923
Gains on investments under equity method	-	-	(190,556)	(5,894)
Others	(85,107)	(2,690)	(1,424,954)	(44,075)
Taxable income	(3,092,359)	(97,736)	7,105,762	219,788
Multiply by: tax rates	25%	25%	25%	25%
Add: extra 10% income tax on undistributed retained earnings	297,688	9,409	-	-
Less: tax effects under integrated income tax systems	(297,688)	(9,409)	-	-
Sub-total	(773,090)	(24,434)	1,776,441	54,947
Add: Separation taxes	205,720	6,502	370,562	11,462
Additional taxes assessed by the tax authority	-	-	901	28
Dissimilitude on estimate tax after time	(18,147)	(574)	3,587	111
Beginning deferred income tax assets	364,579	11,523	465,526	14,399
Ending deferred income tax liabilities	224,698	7,102	-	-
Allocation of the cumulative effect of changes in accounting principles	-	-	338,668	10,475
Less: Income tax credit	(3,873)	(122)	(5,827)	(180)
Beginning deferred income tax liabilities	(450,452)	(14,237)	(401,815)	(12,428)
Ending deferred income tax assets	(435,098)	(13,752)	(4,483,894)	(138,692)
Total income taxes benefit	<u>\$(885,663)</u>	<u>\$(27,992)</u>	<u>\$(1,935,851)</u>	<u>\$(59,878)</u>

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(2) The Company's income tax returns have been assessed by the Tax Authorities up to fiscal 2001.

(3) Deferred income tax liabilities and assets are as follows:

	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Total deferred tax liabilities	\$224,698	\$7,102	\$-	\$-
Total deferred tax assets	\$435,098	\$13,752	\$4,483,894	\$138,692
Temporary differences:				
Employee benefits	\$5,393	\$170	\$-	\$-
Pension expense	1,564,460	49,446	1,657,161	51,258
Unrealized exchange gains	(898,795)	(28,407)	3,662,223	113,276
Losses from valuation on financial assets and liabilities	-	-	12,437,555	384,706
Impairment loss	158,799	5,019	157,011	4,857
Other	11,739	371	21,627	669
Total	\$841,596	\$26,599	\$17,935,577	\$554,766
Deferred tax assets-current	\$4,283	\$136	\$4,030,351	\$124,663
Deferred tax liabilities-current	(224,699)	(7,102)	-	-
Net offset balance of deferred tax liabilities-current	\$(220,416)	\$(6,966)	\$4,030,351	\$124,663
Deferred tax assets-noncurrent	\$430,815	\$13,616	\$453,543	\$14,029
Deferred tax liabilities-noncurrent	-	-	-	-
Net balance of deferred tax assets-noncurrent	\$430,815	\$13,616	\$453,543	\$14,029

(4) Information related to imputation

	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$63,265	\$2,000	\$88,763	\$2,746

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	For the six months ended	
	June 30,	
	2005	2006
Imputation credit account ratio-actual (May 2, 2005)	9.52%	-
Imputation credit account ratio-actual (May 15, 2006)	-	7.33%

(5) Related information on undistributed earnings

Year	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
After 1998	\$-	\$-	\$-	\$-

Undistributed earnings after 1998 did not include the net income from January 1 to June 30, 2005 and 2006.

(6) Tax credits obtained in accordance with “Statute for Upgrading Industries” are as follows:

Regulation	Deductible items	Amount of deductible				Expiry year
		income tax		Remaining balance		
		NT\$	US\$	NT\$	US\$	
Statute for Upgrading Industries	Education training	\$5,827	\$180	\$-	\$-	2010

23. Earnings per share

	For the six months ended June 30, 2005			
	Before income taxes		After income taxes	
	NT\$	US\$	NT\$	US\$
Income from continuing operations (a)	\$3,264,446	\$103,175	\$4,150,109	\$131,167
Cumulative effect of changes in accounting principles (a)	-	-	-	-
Net income (a)	\$3,264,446	\$103,175	\$4,150,109	\$131,167

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	For the six months ended June 30, 2005			
	Before income taxes		After income taxes	
	NT\$	US\$	NT\$	US\$
Outstanding number of thousand shares at end of periods (b)	5,068,616	5,068,616	5,068,616	5,068,616
Weighted average outstanding number of thousand shares (c)	5,068,616	5,068,616	5,068,616	5,068,616
Earnings per share (a) / (c) (dollars)				
Income from continuing operations	\$0.64	\$0.02	\$0.82	\$0.03
Cumulative effect of changes in accounting principles	-	-	-	-
Net income	<u>\$0.64</u>	<u>\$0.02</u>	<u>\$0.82</u>	<u>\$0.03</u>

	For the six months ended June 30, 2006			
	Before income taxes		After income taxes	
	NT\$	US\$	NT\$	US\$
Income from continuing operations (a)	\$1,927,573	\$59,621	\$3,863,424	\$119,499
Cumulative effect of changes in accounting principles (a)	2,977,187	92,088	3,315,855	102,563
Net income (a)	<u>\$4,904,760</u>	<u>\$151,709</u>	<u>\$7,179,279</u>	<u>\$222,062</u>
Outstanding number of thousand shares at end of periods (b)	5,068,616	5,068,616	5,068,616	5,068,616
Weighted average outstanding number of thousand shares (c)	5,068,616	5,068,616	5,068,616	5,068,616
Earnings per share (a) / (c) (dollars)				
Income from continuing operations	\$0.38	\$0.01	\$0.76	\$0.02
Cumulative effect of changes in accounting principles	0.59	0.02	0.66	0.02
Net income	<u>\$0.97</u>	<u>\$0.03</u>	<u>\$1.42</u>	<u>\$0.04</u>

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24. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent Company
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of the Company
Symphox Information Co., Ltd.	Subsidiary of the Company
Cathay Securities Investment Co., Ltd.	Subsidiary of the Company
Cathay Life Insurance Ltd. (Shanghai)	Subsidiary of the Company
Cathay Securities Investment Trust Co., Ltd.	An equity method investee
Cathay Venture Capital Corp.	An equity method investee
Vista Technology Venture Capital Corp.	An equity method investee
Cathay Real Estate Development Co., Ltd.	Affiliate
Cathay United Bank	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Cathay Century Insurance Co., Ltd.	Affiliate
Cathay Securities Co., Ltd.	Affiliate
Cathay Capital Management Inc.	Affiliate
Seaward Card Co., Ltd.	Affiliate
Lin Yuan Property Management Co., Ltd.	Affiliate
Cathay Pacific Venture Capital Co., Ltd.	Affiliate
Cathay II Venture Capital Corp.	Affiliate
Cathay Pacific Partners Co., Ltd.	Affiliate
Taiwan Real Estate Management Co., Ltd.	Affiliate
Cathay property Insurance Agent Co., Ltd.	Affiliate
Indovina Bank Limited	Affiliate
Pao Shin Securities Co., Ltd.	Affiliate
China England Company Ltd.	Affiliate
Culture and Charity Foundation of the CUB	Affiliate
Seaward Leasing Co., Ltd.	Affiliate
Cathay Life Insurance Agent Co., Ltd.	Affiliate
Cathay Futures Co., Ltd.	Affiliate
Cathay Lin Yuan Security Co., Ltd.	Affiliate
Lucky Bank Taiwan Inc.	Affiliate
Cathay Charity Foundation	Affiliate

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<u>Name</u>	<u>Relationship</u>
Cathay General Hospital	Their chairman is the Company's chairman
Lin Yuan Investment Co., Ltd.	Their Chairman is an immediate family member of the Company's chairman
Wan Pao Development Co., Ltd.	Their Chairman is an immediate family member of the Company's chairman
Yi Ru Corporation	Their Chairman is an immediate family member of the Company's chairman
Taiwan Asset Management Corporation	Their Chairman is Cathay United Bank
Other related parties	The directors supervisors, managers and second relatives are included

(2) Significant transactions with related parties

A. Property transactions (from related parties):

Transactions between the Company and related parties are undertaking contracted projects, construction, and lease transactions. The terms of such transactions are based on market surveys and the contracts of both parties.

(A) Significant transactions with related parties for the six months ended June 30, 2005 and 2006 are listed below:

<u>Name</u>	<u>Item</u>	<u>For the six months ended June 30, 2005</u>	
		<u>NT\$</u>	<u>US\$</u>
San Ching Engineering Co., Ltd.	Ban Ciao Building	\$181,599	\$5,739
	Tianmu Base-A	2,659	84
	Cathay Golden & Silver Bldg	3,791	120
	Sheraton Taipei Hotel	32,576	1,030
	Siangyang Building	4,222	133
	Cathay Land Mark	1,500	47
	Other	281	9
Cathay Real Estate Development Co., Ltd.	Ban Ciao Building	1,474	47
	Total	\$228,102	\$7,209

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Name	For the six months ended June 30, 2006		
	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	Cathay General Hospital	\$5,838	\$181
	Other	66	2
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark	1,500	46
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building	4,398	136
	Li-Yuan Building	10,077	312
	Jhong Jheng Building	7,198	223
	International Building	1,279	40
	World Commercial Building	1,393	43
	Financial Center Hsing-E	2,555	79
	Yuanlin Building	2,902	90
	Changhua 2nd Building	1,431	44
	Central industrial& Commercial Building	1,406	43
	Taipei Royalty Building	12,607	390
	Jhong Gang Building	9,124	282
	Cathay Building	8,919	276
	Tun Nan Commercial Building	2,618	81
	Min Sheng Chien Kuo Building	1,088	33
	Feng Chia Building	2,326	72
	Other	7,638	236
	Total	<u>\$84,363</u>	<u>\$2,609</u>

The total amount of contracted projects for real estate as of June 30, 2005 and 2006 between the Company and San Ching Engineering Co., Ltd. was NT\$7,412,460 (US\$234,275) and NT\$1,233,866 (US\$38,165), respectively.

(B) Real estates acquired from related parties for the six months ended June 30, 2005 and 2006 are as follows:

The Company did not acquire any real estates from its related parties for the six months ended June 30, 2005.

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Name	Item	For the six months ended June 30, 2006	
		Contract Price	
		NT\$	US\$
Wan Pao Development Co., Ltd.	No. 658 Simen Rd, Tainan City	<u>\$5,290,000</u>	<u>\$163,625</u>
Cathay Real Estate Development Co., Ltd.	Tianmu E.Rd., and Sec. 2 Zhong Cheng Rd., Shilin District, Taipei City	<u>\$2,470,000</u>	<u>\$76,400</u>

(C) Real-estate rental income (from related parties) :

Name	Rental income			
	For the six months ended June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$4,467	\$141	\$5,124	\$159
Cathay Real Estate Development Co., Ltd.	8,028	254	7,925	245
Cathay United Bank	134,250	4,243	124,531	3,852
Cathay Century Insurance Co., Ltd.	27,940	883	25,910	801
Cathay General Hospital	65,240	2,062	73,075	2,260
San Ching Engineering Co., Ltd.	3,784	120	3,728	115
Symphox Information Co., Ltd.	12,474	394	14,880	460
Cathay Securities Investment Trust Co., Ltd.	5,804	184	5,994	185
Cathay Securities Co., Ltd.	7,339	232	7,531	233
Cathay Securities Investment Co., Ltd.	1,813	57	1,687	52
Cathay Capital Management Corporation	962	30	991	31
Seaward Leasing Co., Ltd.	665	21	606	19
Taiwan Asset Management Corporation	7,171	227	6,653	206
Cathay Futures Co., Ltd.	142	4	313	10
Total	<u>\$280,079</u>	<u>\$8,852</u>	<u>\$278,948</u>	<u>\$8,628</u>

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Name	Guarantee deposits received			
	June 30,2005		June 30,2006	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$4,286	\$135	\$3,645	\$113
Cathay United Bank	75,907	2,399	65,336	2,021
Cathay Century Insurance Co., Ltd.	13,764	435	14,306	442
Cathay General Hospital	4,509	143	6,840	212
San Ching Engineering Co., Ltd.	2,009	63	1,709	53
Symphox Information Co., Ltd.	1,901	60	2,718	84
Cathay Securities Investment Trust Co., Ltd.	2,738	87	2,738	85
Cathay Securities Co., Ltd.	3,647	115	3,785	117
Taiwan Asset Management Corporation	3,477	110	3,477	107
Cathay Securities Investment Co., Ltd.	877	28	877	27
Cathay Capital Management Inc.	479	15	479	15
Seaward Leasing Co., Ltd.	346	11	346	11
Total	<u>\$113,940</u>	<u>\$3,601</u>	<u>\$106,256</u>	<u>\$3,287</u>

Lease terms and collection of rental are governed by signed contracts, with lease terms generally 2 to 5 years. Rentals are collected monthly.

(D)Real-estate rental expense (to related parties) :

Name	Rental expense			
	For the six months ended June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$14,794	\$468	\$15,383	\$476
Lin Yuan Investment Co., Ltd.	2,275	72	1,053	33
Yi Ru Corporation	2,041	64	1,684	52
Lucky Bank Taiwan Inc.	-	-	2,262	70
Cathay United Bank	-	-	462	14
Total	<u>\$19,110</u>	<u>\$604</u>	<u>\$20,844</u>	<u>\$645</u>

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Name	Guarantee deposits paid			
	June 30,2005		June 30,2006	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$9,031	\$285	\$8,926	\$276
Yi Ru Corporation	1,190	38	1,190	37
Lin Yuan Investment Co., Ltd.	628	20	628	19
Lucky Bank Taiwan Inc.	-	-	1,292	40
Total	\$10,849	\$343	\$12,036	\$372

According to contracts, terms of leases with third parties generally were 3 years, and rents were paid monthly.

B. Cash in banks

For the six months ended June 30,2005				
Name	Item	Interest income		Ending balance
		NT\$	Rate	NT\$
Cathay United Bank	Time deposit	\$130,225	0.00%~1.69%	\$17,166,250
	Cash in bank	2,047	0.10%~1.05%	3,310,954
Total		\$132,272		\$20,477,204

For the six months ended June 30,2005				
Name	Item	Interest income		Ending balance
		US\$	Rate	US\$
Cathay United Bank	Time deposit	\$4,116	0.00%~1.69%	\$542,549
	Cash in bank	65	0.10%~1.05%	104,645
Total		\$4,181		\$647,194

For the six months ended June 30,2006				
Name	Item	Interest income		Ending balance
		NT\$	Rate	NT\$
Cathay United Bank	Time deposit	\$81,710	1.05%~2.02%	\$1,459,750
	Cash in bank	923	0.10%~2.25%	2,787,186
Lucky Bank Taiwan Inc.	Cash in bank	5	0.10%	11,722
Total		\$82,638		\$4,258,658

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		For the six months ended June 30,2006		
Name	Item	Interest income		Ending balance
		US\$	Rate	US\$
Cathay United Bank	Time deposit	\$2,527	1.05%~2.02%	\$45,152
	Cash in bank	29	0.10%~2.25%	86,210
Lucky Bank Taiwan Inc.	Cash in bank	-	0.10%	363
Total		<u>\$2,556</u>		<u>\$131,725</u>

C. Other financial assets - current

		For the six months ended June 30,2005		
Name		Interest income		Ending balance
		NT\$	Rate	NT\$
Cathay United Bank		<u>\$14,703</u>	0.12%~3.03%	<u>\$2,000,000</u>

		For the six months ended June 30,2005		
Name		Interest income		Ending balance
		US\$	Rate	US\$
Cathay United Bank		<u>\$465</u>	0.12%~3.03%	<u>\$63,211</u>

		For the six months ended June 30,2006		
Name		Interest income		Ending balance
		NT\$	Rate	NT\$
Cathay United Bank		<u>\$4,438</u>	1.80%	<u>\$1,000,000</u>

		For the six months ended June 30,2006		
Name		Interest income		Ending balance
		US\$	Rate	US\$
Cathay United Bank		<u>\$137</u>	1.80%	<u>\$30,931</u>

D. Secured loans

		For the six months ended June 30,2005		
Name	Maximum amount	Interest income		Ending balance
	NT\$	NT\$	Rate	NT\$
Cathay General Hospital	<u>\$2,321,146</u>	<u>\$30,809</u>	2.60%~2.84%	<u>\$2,321,013</u>

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For the six months ended June 30,2005				
Name	Maximum amount US\$	Interest income US\$	Rate	Ending balance US\$
Cathay General Hospital	\$73,361	\$974	2.60%~2.84%	\$73,357

For the six months ended June 30,2006				
Name	Maximum amount NT\$	Interest income NT\$	Rate	Ending balance NT\$
Cathay General Hospital	\$3,950,612	\$57,340	3.03%~3.23%	\$3,950,205
Other related parties	74,633	975	2.095%~3.14%	71,715
Total	\$4,025,245	\$58,315		\$4,021,920

For the six months ended June 30,2006				
Name	Maximum amount US\$	Interest income US\$	Rate	Ending balance US\$
Cathay General Hospital	\$122,196	\$1,774	3.03%~3.23%	\$122,184
Other related parties	2,309	30	2.095%~3.14%	2,218
Total	\$124,505	\$1,804		\$124,402

E. Beneficiary certificates:

Name	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	\$4,818,376	\$152,287	\$5,850,365	\$180,958

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F. Accounts receivable

Name	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$71,030	\$2,245	\$1,069	\$33
Cathay Insurance (Bermuda) Co., Ltd.	13,290	420	2,958	92
Cathay Financial Holding Co., Ltd.	1,077,234	34,047	18,302	566
Total	<u>\$1,161,554</u>	<u>\$37,712</u>	<u>\$22,329</u>	<u>\$691</u>

G. Guarantee deposits paid

Name	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	<u>\$784,167</u>	<u>\$24,784</u>	<u>\$668,050</u>	<u>\$20,663</u>

As of June 30, 2005 and 2006, the imputed interest income of guarantee deposits paid deposited in Cathay Futures Co., Ltd. were NT\$123(US\$4) and NT\$189(US\$6).

H. Other accounts payable

Name	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$14,859	\$470	\$13,718	\$424
Symphox Information Co., Ltd.	31,984	1,011	62,482	1,933
Lin Yuan Property Management Co., Ltd.	40,315	1,274	26,169	809
Cathay Financial Holding	-	-	1,530,763	47,348
Total	<u>\$87,158</u>	<u>\$2,755</u>	<u>\$1,633,132</u>	<u>\$50,514</u>

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I. Accounts collected in advance

Name	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$2,302	\$73	\$2,324	\$72

J. Prepayment

Name	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$4,872	\$154	\$2,245	\$70
Cathay Life Insurance Agent Co., Ltd.	-	-	1,562	48
Yi Ru Corporation	-	-	462	14
Total	\$4,872	\$154	\$4,269	\$132

K. Insurance income

Name	For the six months ended June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$153,999	\$4,867	\$206,174	\$6,377
Cathay Financial Holding Co., Ltd.	362	12	361	11
Cathay General Hospital	11,854	375	13,371	414
Cathay Real Estate Development Co., Ltd.	660	21	736	23
San Ching Engineering Co., Ltd.	577	18	596	18
Cathay Century Insurance Co., Ltd.	3,348	106	3,736	116
Cathay Securities Investment Trust Co., Ltd.	393	12	447	14

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Name	For the six months ended June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Securities Co., Ltd.	549	17	806	25
Cathay Futures Co., Ltd.	1,134	36	606	19
Symphox Information Co., Ltd.	478	15	659	20
Other related parties	-	-	14,260	441
Total	<u>\$173,354</u>	<u>5,479</u>	<u>\$241,752</u>	<u>\$7,478</u>

L. Insurance expense

Name	For the six months ended June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	<u>\$116,580</u>	<u>\$3,685</u>	<u>\$108,721</u>	<u>\$3,363</u>

Insurance expense was included property and equipment, cash, accident insurance. As of June 30, 2005 and 2006 the insurance expense which was authorized the Company to insure the fidelity insurance clause by employees were NT\$4,741(US\$150) and NT\$4,794(US\$148).

M. Indemnity income

Name	For the six months ended June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	<u>\$2,479</u>	<u>\$78</u>	<u>\$389</u>	<u>\$12</u>

N. Reinsurance income

Name	For the six months ended June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	<u>\$47,482</u>	<u>\$1,501</u>	<u>\$71,063</u>	<u>\$2,198</u>

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O.Reinsurance claims payment

Name	For the six months ended June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$33,268	\$1,051	\$67,259	\$2,080

P. Reinsurance commission expense

Name	For the six months ended June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$5,977	\$189	\$7,842	\$243

Q.Miscellaneous income

Name	For the six months ended June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$251,300	\$7,942	\$184,391	\$5,703
Cathay United Bank Cathay Securities Investment Trust Co., Ltd.	66,975	2,117	57,792	1,788
	3,368	107	6,146	190
Symphox Information Co., Ltd.	1,391	44	1,148	36
Total	\$323,034	\$10,210	\$249,477	\$7,717

The miscellaneous income was cross-selling income.

R. Commissions expense

Name	For the six months ended June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$101,839	\$3,219	\$66,988	\$2,072

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S. Operating expense

Name	For the six months ended June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Charity Foundation	\$-	\$-	\$850	\$26
Symphox Information Co., Ltd.	121,500	3,840	117,551	3,636
Cathay General Hospital	-	-	1,724	53
Lin Yuan Property Management Co., Ltd.	382,919	12,102	351,605	10,876
Cathay Securities Investment Co., Ltd.	26,250	830	26,250	812
San Ching Engineering Co., Ltd.	3,594	113	2,024	63
Cathay Real Estate Development Co., Ltd.	3,027	96	3,123	97
Cathay Capital Management Corporation	5,000	158	14,196	439
Seaward Leasing Co., Ltd.	1,733	55	3,179	98
Seaward Card Co., Ltd.	504	16	577	18
Total	<u>\$544,527</u>	<u>\$17,210</u>	<u>\$521,079</u>	<u>\$16,118</u>

T. Sale of securities

For the six months ended June 30, 2006						
Related party	Securities	Shares (thousand)	Amount		Gain on disposal	
			NT\$	US\$	NT\$	US\$
San Ching Engineering Co., Ltd.	Lin Yuan Property Management Co., Ltd.	2,400	\$47,554	\$1,471	\$3,707	\$115

There were no related party transactions of securities for the six months ended June 30, 2005.

U. Other

As of June 30, 2005 and 2006, the notional amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

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Item	June 30,	
	2005	2006
Forward foreign exchange contracts	USD106,570	USD284,789
CCS contracts	USD765,000	USD793,168
IRS agreements	TWD500,000	-
	USD15,803	-

25. Pledged assets

As of June 30, 2005 and 2006, the Company provided time deposits as guarantees for the return of the deposits received from its real estate lessees, premiums of retrocede business, and as bonds placed with courts in legal proceedings. Further, pursuant to Article 141 of the Insurance Law, the Company is required to deposit long-term investment in government bonds equal to 15% of its capital into the Central Bank as capital guaranteed deposits.

Item	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid	\$8,075,676	\$255,236	\$8,126,646	\$251,366
Time deposits	232,550	7,350	161,600	4,998
Total	<u>\$8,308,226</u>	<u>\$262,586</u>	<u>\$8,288,246</u>	<u>\$256,364</u>

Pledged assets are based on the carrying amount.

26. Other important matters and contingent liabilities

None.

27. Serious damages

None.

28. Subsequent events

None.

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29. Other important events

(1) Pension related information

According to the ROC SFAS No. 23 “Interim Financial Reporting and Disclosures”, the interim financial statements are not required to follow the principles outlined in the ROC SFAS No. 18 “Accounting for Pensions”.

(2) Financial risk management objectives and policies

The Company’s financial assets primarily consist of domestic or foreign common stocks, preferred stocks, bonds, corporate bonds, short-term notes, mortgage-backed securities, mutual funds, short-term notes, cash and cash equivalents.

The Company enters into derivative transactions such as stock options, index futures, interest rate futures, interest rate swaps, currency forwards and cross currency swap to protect against the risks of stock value, interest rate and exchange rate from investment activities.

The primary risks involved in these derivative transactions are market risk, credit risk, operational risk and liquidity risk. In addition to the risk management policies and guidance, the Company also establishes risk management systems such as the VaR model, the credit evaluation model, the integrated appraisal and collection and the concentration management systems to monitoring and managing the Company’s risks.

Market Risk

Market risk is the exposure to uncertain market value of a portfolio, including interest rate risk, stock price risk and exchange rate risk, etc.. The Company conducts analysis and assessments of the investment targets before any investment decisions are made. In addition, VaR model in connection with atmosphere simulation methods, stress testing methods, back testing methods, Position Limit, VaR Limit and Loss Limit are used to effectively manage the market risk of the Company’s financial assets.

Credit Risk

Credit risk is the risk of loss due to counterparty or a debtor defaulting on their contractual obligations. The Company minimizes the credit risk exposure by performing the following evaluations and controls:

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The Company has taken the credit concentration index of each group into the consideration of establishing Lending Policy to prevent over-exposure. Strict credit evaluations are carried out by the Company before committing to any business lending, mortgage lending, policy loan, and security investments. All lending are secured by land, property, plant and equipments or financial guarantees. No defaults have occurred during the current financial year.

Assessments on the mortgage repayment ability and personal credits are performed before the mortgages are granted. The total mortgage amounts granted are limited to 80% of the carrying value of the secured buildings which varies in different regions.

The credit risk level of policy loans is assessed at low, as the policy loan amounts are limited to the net realizable value of the insurance policy and hence are deemed as fully secured investments.

Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal controls, employee fraud or misconduct and management negligence. To mitigate the operational risk, the Company has adopted and implemented the internal control regulations and sheets. The Company is also commenced to develop the information systems to accommodate the aforementioned policies.

Liquidity Risk

Liquidity risk is the risk stemming from the lack of marketability of an investment that can not be bought or sold quickly enough to prevent or minimize a loss. The Company primarily has sought to achieve the flexible cash flow and stable liquidity by utilizing the deposits in financial institutions, short-term notes (includes repurchase agreement) and domestic bond funds. In pursuit of these goals, the Company also conducts analysis of assets allocation, liquid asset ratio and cash flows to ensure the effectiveness and timeliness of managing liquidity risk.

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(2) Financial instruments related information:

Item	June 30, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Cash and cash equivalents	\$252,407,249	\$252,407,249	\$7,977,473	\$7,977,473
Receivables	10,278,092	10,278,092	324,845	324,845
Financial assets at fair value through profit and loss - current	100,199,143	100,199,143	3,166,850	3,166,850
Available-for-sale financial assets - current	106,795,415	117,777,305	3,375,329	3,722,418
Held-to-maturity financial assets - current	98,702	98,702	3,120	3,120
Investments in debt securities with no active market-current	210,538	210,538	6,654	6,654
Available-for-sale financial assets - noncurrent	125,917,050	125,480,966	3,979,679	3,965,897
Held-to-maturity financial assets - noncurrent	372,872,790	373,284,199	11,784,854	11,797,857
Financial assets carried at cost - noncurrent	21,333,510	21,333,510	674,258	674,258
Investments in debt securities with no active market - noncurrent	41,777,254	41,787,693	1,320,394	1,320,724
Long-term investments in stocks	3,699,081	3,699,081	116,911	116,911
Guarantee deposits paid	8,336,424	8,336,424	263,478	263,478
<u>Assets-derivative</u>				
Financial assets at fair value through profit and loss - current				
Futures	\$3,686,238	\$3,705,714	\$116,506	\$117,121
Option	96,521	101,691	3,050	3,214
Forward	2,849,394	2,849,394	90,057	90,057
IRS	(35,881)	(35,742)	(1,134)	(1,130)
<u>Liabilities-derivative</u>				
Financial liabilities at fair value through profit and loss - current				
Option	95,903	95,903	3,031	3,031
Forward	1,604,816	1,604,816	50,721	50,721
IRS	67,778	67,778	2,142	2,142

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Item	June 30,2006			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Cash and cash equivalents	\$274,073,943	\$274,073,943	\$8,477,388	\$8,477,388
Receivables	9,380,157	9,380,157	290,138	290,138
Financial assets at fair value through profit and loss - current	113,655,799	113,655,799	3,515,490	3,515,490
Available-for-sale financial assets - current	82,499,190	82,499,190	2,551,784	2,551,784
Held-to-maturity financial assets - current	4,494,949	4,494,949	139,033	139,033
Investments in debt securities with no active market-current	2,669,773	2,669,773	82,579	82,579
Available-for-sale financial assets - noncurrent	138,531,073	138,531,073	4,284,908	4,284,908
Held-to-maturity financial assets - noncurrent	524,773,006	503,393,112	16,231,767	15,570,464
Financial assets carried at cost - noncurrent	20,159,255	20,159,255	623,546	623,546
Investments in debt securities with no active market - noncurrent	43,008,176	41,648,990	1,330,287	1,288,246
Long-term investments in stocks	4,181,686	4,181,686	129,344	129,344
Guarantee deposits paid	8,298,933	8,298,933	256,694	256,694
<u>Assets-derivative</u>				
Financial assets at fair value through profit and loss - current				
Futures	\$3,689,208	\$3,689,208	\$114,111	\$114,111
Option	875	875	27	27
Forward	4,672,455	4,672,455	144,524	144,524
IRS	158,565	158,565	4,905	4,905
Derivative financial assets for hedging - current				
IRS	326,925	326,925	10,112	10,112

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Item	June 30,2006			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Liabilities-derivative</u>				
Financial liabilities at fair value through profit and loss - current				
Option	381	381	12	12
Forward	16,324,495	16,324,495	504,933	504,933
IRS	880,621	880,621	27,238	27,238
Derivative financial liabilities for hedging - current				
IRS	22,695	22,695	702	702

The methods and assumptions used to estimate the fair values of the financial instruments are as follows:

- ① The fair value of the Company's short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash, cash equivalents, receivables and payables.
- ② The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount.
- ③ Quoted market price, if available, are utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for the Company's held-to-maturity financial assets, the fair value of financial assets has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. The Company uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.
- ④ The fair value of the Company's current and noncurrent financial asset or liabilities was based on market prices at the reporting date if market prices are not available. When market prices are not available, the fair value was based on relevant financial or any other information.

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- ⑤ The following table summarizes the fair value information of the Company's financial assets and liabilities at June 30, 2006:

Financial Instruments	June 30,2006			
	NT\$			
	Based on the quoted market price		Based on valuation techniques	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Financial assets at fair value through profit and loss-current	\$107,374,944	\$107,374,944	\$6,280,855	\$6,280,855
Available-for-sale financial assets-current	82,499,190	82,499,190	-	-
Held-to-maturity financial assets-current	4,494,949	4,494,949	-	-
Investments in debt securities with no active market-current	-	-	2,669,773	2,669,773
Available-for-sale financial assets-noncurrent	112,573,718	112,573,718	25,957,355	25,957,355
Held-to-maturity financial assets-noncurrent	80,835,997	81,883,944	443,937,009	421,509,168
Financial assets carried at cost-noncurrent	20,159,255	20,159,255	-	-
Investment in debt securities with no active market-noncurrent	14,617,354	14,617,354	28,390,822	27,031,636
Long-term investments in stocks under the equity method	-	-	4,181,686	4,181,686
<u>Assets derivative</u>				
Financial assets at fair value through profit and loss-current				
Futures	3,689,208	3,689,208	-	-
Option	875	875	-	-
Forward contracts	-	-	4,672,455	4,672,455
IRS	-	-	158,565	158,565
Derivative financial assets for hedging-current	-	-	326,925	326,925
IRS				
<u>Liability derivative</u>				
Financial liability at fair value through profit and loss-current				
Option	381	381	-	-
Forward contracts	-	-	16,324,495	16,324,495
IRS	-	-	880,621	880,621
Derivative financial assets for hedging-current				
IRS	-	-	22,695	22,695

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Financial Instruments	June 30,2006			
	US\$			
	Based on the quoted market price		Based on valuation techniques	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Financial assets at fair value through profit and loss-current	\$3,321,217	\$3,321,217	\$194,273	\$194,273
Available-for-sale financial assets-current	2,551,784	2,551,784	-	-
Held-to-maturity financial assets-current	139,033	139,033	-	-
Investments in debt securities with no active market-current	-	-	82,579	82,579
Available-for-sale financial assets-noncurrent	3,482,020	3,482,020	802,888	802,888
Held-to-maturity financial assets-noncurrent	2,500,340	2,532,754	13,731,427	13,037,710
Financial assets carried at cost-noncurrent	623,546	623,546	-	-
Investment in debt securities with no active market-noncurrent	452,130	452,130	878,157	836,116
Long-term investments in stocks under the equity method	-	-	129,344	129,344
<u>Assets-derivative</u>				
Financial assets at fair value through profit and loss-current				
Futures	114,111	114,111	-	-
Option	27	27	-	-
Forward contracts	-	-	144,524	144,524
IRS	-	-	4,905	4,905
Derivative financial assets for hedging-current				
IRS	-	-	10,112	10,112
<u>Liability derivative</u>				
Financial liability at fair value through profit and loss-current				
Option	12	12	-	-
Forward contracts	-	-	504,933	504,933
IRS	-	-	27,238	27,238
Derivative financial assets for hedging-current				
IRS	-	-	702	702

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(4) Risk of interest rate

The following table summarizes the maturities of the Company's financial instruments at June 30, 2006:

Non-derivative financial instruments of fixed interest rate

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit and loss	\$-	\$-	\$622,883	\$19,266	\$284,270	\$8,793	\$-	\$-
Available-for-sale financial assets	2,821,039	87,258	1,666,574	51,549	1,080,059	33,407	911,221	28,185
Held-to-maturity financial assets	11,855,458	366,702	7,874,716	243,573	817,629	25,290	14,488,857	448,155
Investments in debt securities with no active market	502,274	15,536	-	-	1,258,431	38,924	447,447	13,840

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit and loss	\$1,068,887	\$33,062	\$28,983,407	\$896,486	\$30,959,447	\$957,607
Available-for-sale financial assets	4,839,715	149,697	84,204,684	2,604,537	95,523,292	2,954,633
Held-to-maturity financial assets	14,773,046	456,945	253,782,734	7,849,760	303,592,440	9,390,425
Investments in debt securities with no active market	615,071	19,025	29,199,429	903,168	32,022,652	990,493

Non-derivative financial instruments of float interest rate

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit and loss	\$6,818,078	\$210,890	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	43,007,781	1,330,275	-	-	-	-	-	-
Held-to-maturity financial assets	229,307,212	7,092,707	-	-	-	-	-	-
Investments in debt securities with no active market	13,655,296	422,372	-	-	-	-	-	-

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Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit and loss	\$-	\$-	\$-	\$-	\$6,818,078	\$210,890
Available-for-sale financial assets	-	-	-	-	43,007,781	1,330,275
Held-to-maturity financial assets	-	-	-	-	229,307,212	7,092,707
Investments in debt securities						
with no active market	-	-	-	-	13,655,296	422,372

Derivative financial instruments

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit and loss	\$260,750	\$8,066	\$24,868	\$769	\$3,847	\$119	\$7,541	\$233
Derivative financial assets for hedging	-	-	34,790	1,076	48,952	1,514	133,728	4,136
Financial liabilities at fair value								
through profit and loss	(117,317)	(3,629)	(15,369)	(475)	(2,085)	(65)	(38,863)	(1,202)
Derivative financial liabilities for hedging	-	-	(6,355)	(197)	(6,608)	(204)	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit and loss	\$9,368	\$290	\$100,490	\$3,108	\$406,864	\$12,585
Derivative financial assets for hedging	32,839	1,016	76,616	2,370	326,925	10,112
Financial liabilities at fair value						
through profit and loss	(60,073)	(1,858)	(477,749)	(14,777)	(711,456)	(22,006)
Derivative financial liabilities for hedging	(9,732)	(301)	-	-	(22,695)	(702)

(5) Credit risk

The Company's exposure to credit risk is minimal.

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(6) Hedged of derivative financial instruments related information:

Cash flow hedges-IRS

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$372,500	\$11,522	ARMS	Each quarter	2009/3/24
500,000	15,466	4.0005%-6ML	Yearly	2008/9/26
500,000	15,466	7.6%-90DCP	Half year	2007/10/10
500,000	15,466	7.05%-90DCP	Half year	2007/10/10
300,000	9,279	5.5%-6ML	Half year	2007/12/26
500,000	15,466	6.9%-90DCP	Each quarter	2007/7/9
200,000	6,186	4.003%-6ML	Half year	2008/6/13
500,000	15,466	4%-12ML	Yearly	2008/6/5
300,000	9,279	4.3%-12ML	Yearly	2010/6/20
900,000	27,838	90DCP	Each quarter	2015/2/4
400,000	12,372	90DCP	Each quarter	2015/3/17
50,000	1,547	90DCP	Each quarter	2009/3/15
500,000	15,466	If 6ML<1.1%,6ML If 1.1%<6ML<2.0%,3.8% If 6ML>2.0%,Max(5.50%-6ML,0)	Half year	2011/6/30
200,000	6,186	7.603%-6ML	Half year	2007/7/31
300,000	9,279	7.5%-6ML	Half year	2007/7/31
300,000	9,279	If 6ML<6.9%,3.8% If 6ML>6.9%,0%	Half year	2007/7/31
200,000	6,186	0~0.5Y:3.8%,0.5Y+6ML :3.0% 0.5-1.5Y:0.75%-2.0%, 1.5-2.5Y:1%-2.5%, 2.5-3.5Y:1%-3.0%, 3.5-4.5Y:1%-3.5%, 4.5-5.5Y:1%-4.0%, 5.5-6.5Y:1%-4.5%, 6.5-7.0Y:1%-5.0%	Half year	2011/3/19
200,000	6,186	If 6ML<0.95%,6ML If 0.95%<6ML<2.0%,3.5% If 2.0%<6ML;4.8%-6ML	Half year	2009/1/9
300,000	9,279	5.1%-6ML	Half year	2007/12/19

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
300,000	9,279	If6ML<0.95%,6ML If0.95%<6ML<2.0%,3.5% If2.0%<6ML;4.8%-6ML	Half year	2009/1/7
200,000	6,186	4.000%-6ML	Half year	2010/4/7
300,000	9,279	4.0002%-6ML	Half year	2010/4/7
500,000	15,466	4.0006%-6ML	Half year	2010/4/7
500,000	15,466	4.0007%-6ML	Half year	2010/4/7
250,000	7,733	90DCP	Each quarter	2008/8/10
900,000	27,838	90DCP	Each quarter	2010/8/18
600,000	18,559	90DCP	Each quarter	2010/8/19
450,000	13,919	90DCP	Each quarter	2008/8/22
330,000	10,207	90DCP	Each quarter	2008/8/24
300,000	9,279	5.35%-6ML	Each quarter	2008/1/8
200,000	6,186	4.0003%-6ML	Half year	2010/4/7
300,000	9,279	5.37%-6ML	Yearly	2011/3/15
200,000	6,186	5.85%-6ML	Half year	2009/1/13
50,000	1,547	4.15%-6ML	Half year	2009/1/16
200,000	6,186	6.3%-6ML	Yearly	2010/11/27

(7) Discretionary account management:

Item	June 30,2005			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$2,318,513	\$73,278	\$2,328,332	\$73,588
Repurchase bonds	6,858,783	216,776	6,587,219	208,193
Convertible bonds	33,867	1,070	34,119	1,078
Government Bonds	3,653,657	115,476	3,665,091	115,837
Cash in bank	56,342	1,781	56,342	1,781
Net other assets less liabilities	(88,246)	(2,789)	(88,246)	(2,789)
Total	\$12,832,916	\$405,592	\$12,582,857	\$397,688

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Item	June 30,2006			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$5,971,778	\$184,713	\$5,971,778	\$184,713
Repurchase bonds	4,866,991	150,541	4,868,234	150,579
Convertible bonds	27,512	851	27,512	851
Government Bonds	2,891,806	89,447	2,891,806	89,447
Cash in banks	237,234	7,338	237,242	7,338
Total	<u>\$13,995,321</u>	<u>\$432,890</u>	<u>\$13,996,572</u>	<u>\$432,928</u>

As of June 30, 2005 and 2006, the Company had discretionary account management contracts in the amount of NT\$11,550,000 (US\$365,044), and NT\$12,650,000 (US\$391,277), respectively.

(8) Material contract:

None.

(9) Presentation of financial statements:

Certain accounts in the financial statements for the six months ended June 30,2005 have been reclassified in order to be comparable with those in the financial statements for the six months ended June 30, 2006.

(10) Other:

None.

30. Information regarding investment in Mainland China

On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$22,850 and US\$27,150, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). On September 25, 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. The Company's subsidiary, Cathay Life Insurance Ltd. (Shanghai) has acquired a business license of an enterprise as legal person on December 29, 2004. As of June 30, 2006, the Company's remittances to this company totaled approximately US\$48,330.

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31. Segment Information

In accordance with SFAS No. 23 "Interim Financial Reporting and Disclosures", segment reporting is not required for interim financial statements.